TRADING FOREX WITH DIVERGENCE ON MT4/MT5

JIM BROWN

CONTENTS

INTRODUCTION

My name is Jim Brown and I am a full time Forex Trader. In my previous book called MT4 High Probability Forex Trading Method, I described a very robust trading method that works very well on the longer time frame charts. What I mean by longer time frame is generally the 4hr or the Daily charts. This was a stand-alone trading method where I gave the reader various options on how to trade it.

This book will use the same principles as the MT4 High Probability Forex Trading Method, however it will concentrate on the use of also trading with Divergence. I did mention Divergence in my previous book, but it was only a couple of paragraphs and I didn't go into detail. This book will go into much greater detail with many examples. I might add that there is no requirement for you to buy my previous book as most of the information covered in that book is covered here as well. All of my trading is conducted on the hugely popular MetaTrader 4 platform, commonly referred to as MT4, as my custom indicators are specifically built for the MT4 platform and they use their own unique programming language. I appreciate that not everyone is a fan of the MT4 platform but the good news is, you can download a free MT4 demonstration account from a wide choice of brokers to conduct your trade analysis and then carry out your actual trading on your preferred platform.

This book will contain a complete stand-alone trading method where there will be no upsells or further purchases required by the reader. The only requirement to obtain the custom indicators is to subscribe, using your email, to an automated mailing system.

November 2016 update: The software builder of MT4, Metaquotes, stated that they would no longer be upgrading the MT4 platform, as they now prefer to concentrate all their efforts on their MT5 platform. MT5 has been around for a few years now but it wasn't very popular with traders or brokers due to some trading restrictions.

Metaquotes has since modified it and it now appears to be a lot better. If the MT4 platform is phased out completely, then I will be converting all of my custom indicators over to the MT5 programming language so they can be used

on that platform. I cannot imagine that the complete phasing out of MT4 will happen any time soon as there are still a lot of brokers who don’t offer the MT5 platform, so while there is no need to panic it is good to be prepared for when it does happen.

I also ask that you don’t blindly follow my trading systems. I offer a framework for you to build your own trading system around. Sure look at my ideas, but take them and make them your own. If you have your own favorite indicator you want to add, or you use another method for exits etc. then that is fine. I am not a Guru and I don’t necessarily agree with what a lot of the so called trading Gurus out there state either so I would expect nothing different from my readers.

Have a look at what I offer and make your own decisions on how you want to trade. I will give you plenty of ideas in this book, some low risk and some a little higher risk. I will also follow some common rules with regards to trading Divergence, but I also look for slightly left field ways of trading it. In the end, the choice is yours. You have to come up with your own trading style that is simple and comfortable for you to use. It may not suit your trading buddy, but it has to suit you and that is the important thing. It is all about you and no one else.

WHAT IS DIVERGENCE?

Divergence sounds a little technical and intimidating but I can assure you that it is easy to understand when you know what you are looking for. Some even consider Divergence to be a leading indicator. What this means is that once Divergence is confirmed on a chart, it generally gives you an early warning indication that something is about to happen with regards to price, or it is currently happening.

Many of the standard technical indicators are sometimes referred to as lagging indicators, which basically means that price has already moved by the time the indicator gives its signal.

Some traders may disagree with this sort of generalization and I guess I do to a certain extent. I like using indicators to help me with my trading, and you will see plenty of examples in this book. But I do agree that Divergence can be considered a leading indicator, and you will see examples of this also.

Divergence is the difference between what the actual price on the chart is doing and what an Oscillator type indicator is doing. For example, if price on the chart is heading up and the Oscillator is heading down, then we have Divergence. If they were both going in the same direction, then there wouldn't be any Divergence. It is just a big word used to describe something very simple. There are two main types of Divergence:

•Regular Divergence

•Hidden Divergence

Now these are also broken down into two sub groups:

•Regular Divergence: there is Regular Bullish Divergence and Regular Bearish Divergence

•Hidden Divergence: there is Hidden Bullish Divergence and Hidden Bearish Divergence

This means that you will be looking for four (4) different chart patterns in total. It won't take long to identify any of these patterns as once you know what you are looking for, they will become quite easy to spot.

In the following diagrams, you can see price on top with the oscillator below. LL denotes lower lows, HH denotes higher highs, LH denotes lower highs and HL denotes higher lows.

If it is identified as being either one of the Bullish Divergences, then price is expected to go up, and if it is identified as being one of the Bearish Divergences, then price is expected to go down. Keep in mind that it does not always work like this, but you will be surprised how many times it does comply with this theory. You will notice that with

Bullish Divergence we are looking for Divergence across the lows on both price and the indicator, and with Bearish Divergence, it is Divergence across the highs of both price and the indicator.

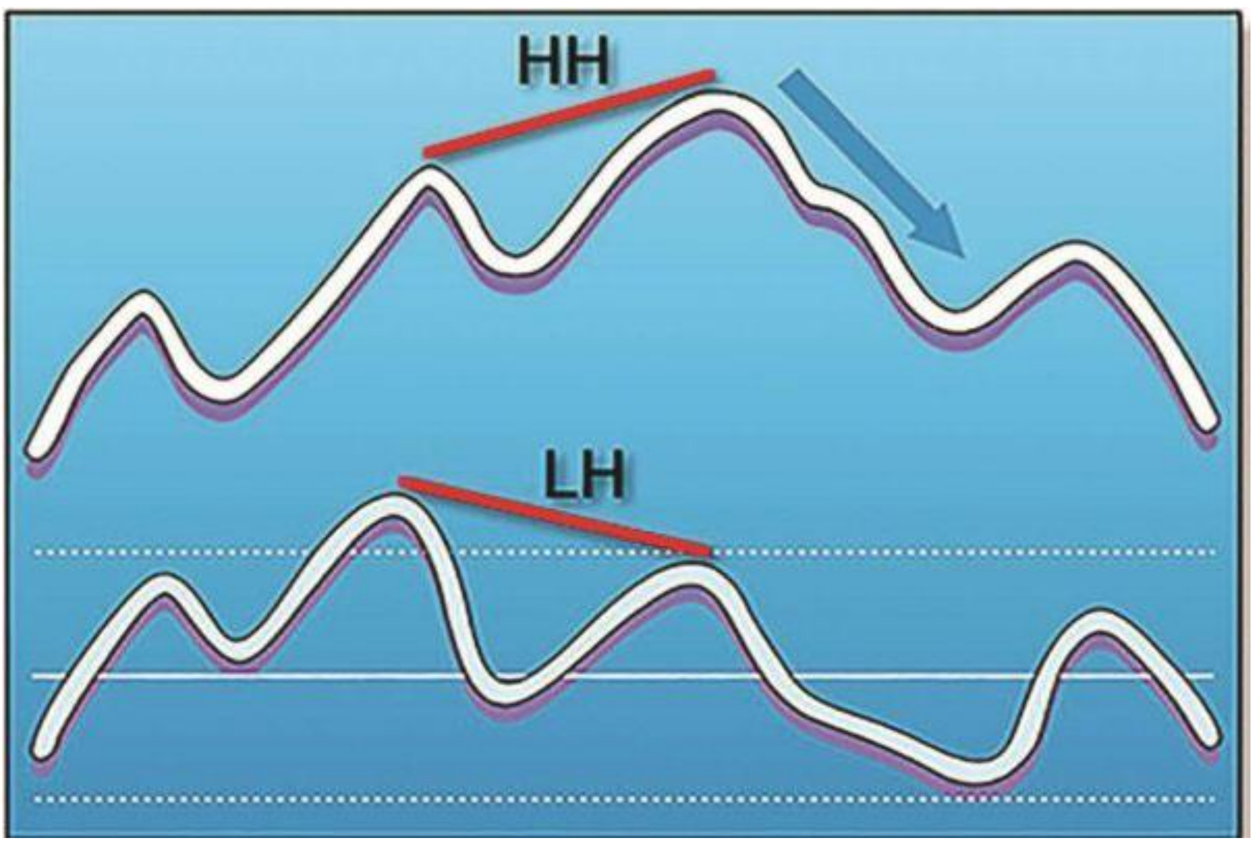


Figure 1. Regular Bearish Divergence

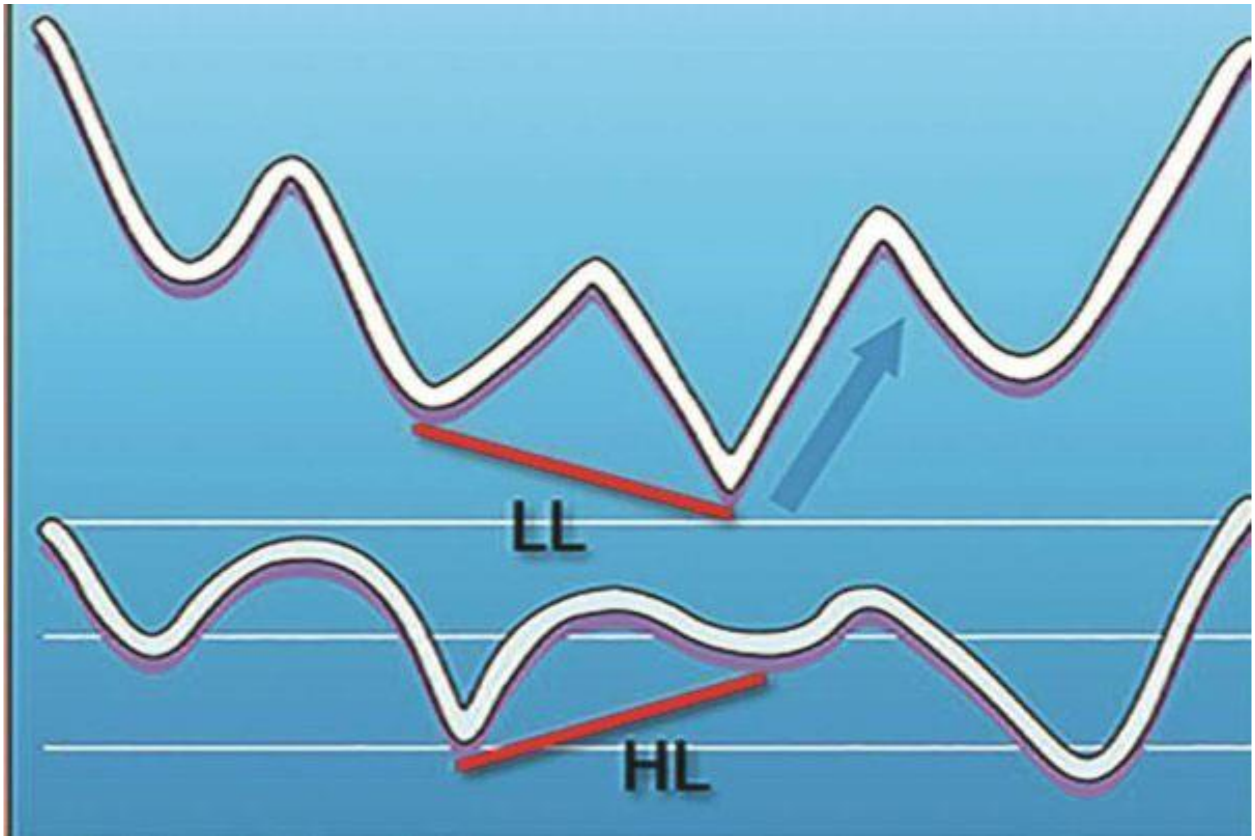


Figure 2. Regular Bullish Divergence

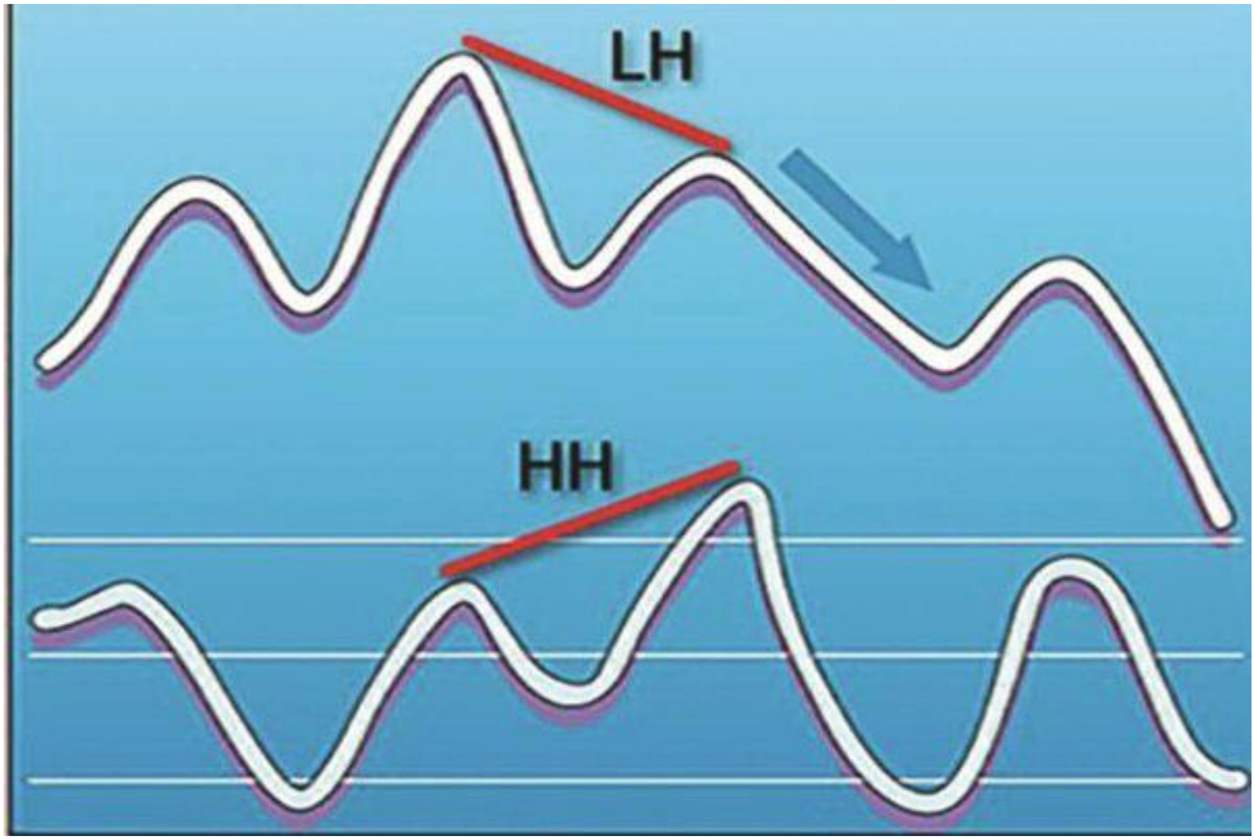


Figure 3.Hidden Bearish Divergence

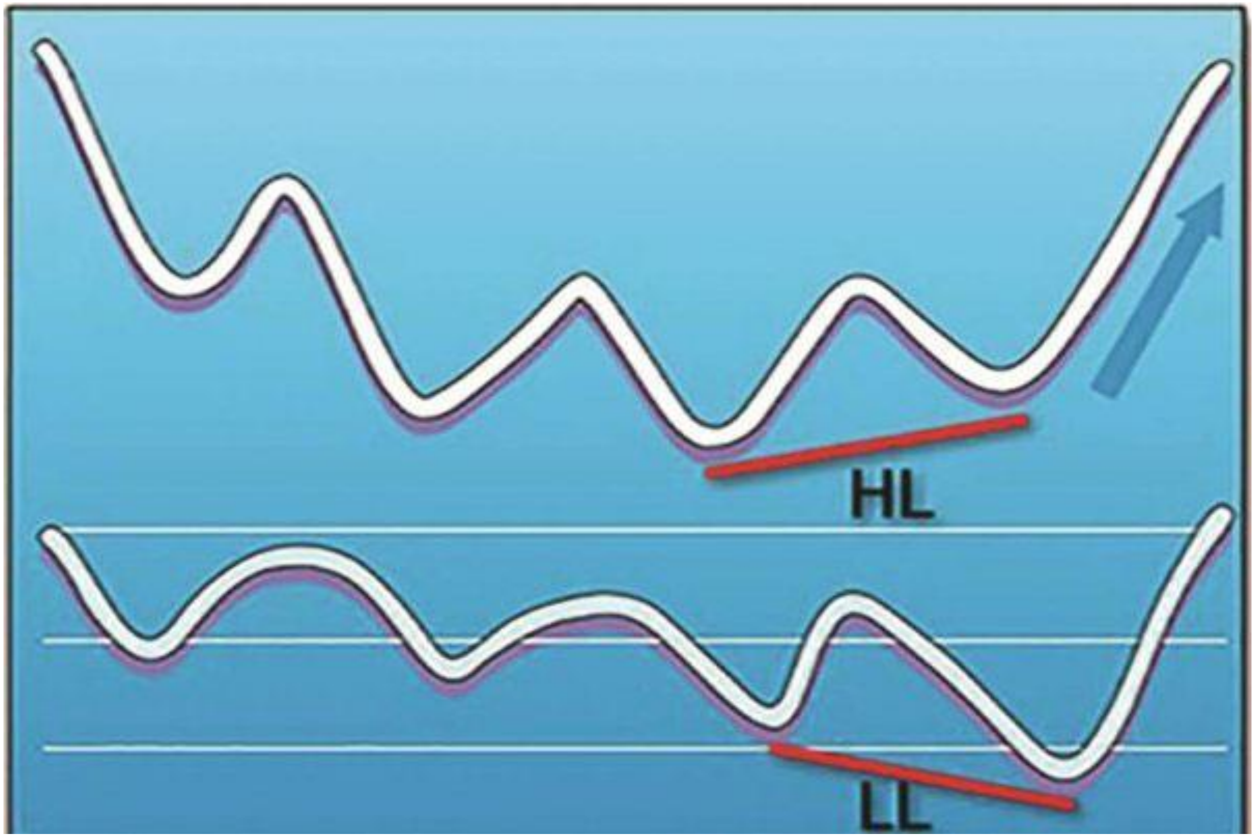


Figure 4. Hidden Bullish Divergence

SETTING UP THE CHARTS

I like to use candlestick charts for my trading. I find them more of a visual aid when it comes to determining possible change of trends etc. There is plenty of information out there in Google land to research and get an idea of candlestick patterns. I am not a huge fan of candlestick patterns, but because I have looked at thousands of charts over the years, I will subconsciously recognize certain patterns and act accordingly. You can't beat time spent on historical charts as this will help you immensely with your trading.

And I would like to take this one step further and encourage you to give the shorter time frames a big miss, especially when it comes to trading using Divergence. When I say shorter time frames, I am talking about anything less than 4 hour charts. I know, I know, everyone wants to be a Day Trader. It is the cool thing to do, trading for a few hours a day and then you are done and you can sleep well at night knowing you have no open positions. It all sounds good in theory but it rarely works out like that.

Day Trading takes strict discipline and concentration, and you are also at the mercy of any major news releases. Even if you lost your power or internet connection for 5 minutes, this could make a huge difference to your trading results, not to mention just heading into the kitchen or a bathroom break, or the dreaded Facebook. When trading the longer time frames, these issues are less of a concern. Even the 1 hour charts sound like a good option for Traders, but these too are hard work as you may get stuck in a trade that goes nowhere for a few hours and then you are in a quandary regarding what to do as it is either your bed time or it is time to go to work.

As this book is predominately about trading using Divergence then I would have to add that generally, the longer the time frame the more solid and reliable the signal is. The longer time frames tend to cut out all of the market noise. This basically applies to all types of trading. You might not want to trade off the Weekly or Monthly charts due to the very long wait between trade set ups, which I can fully understand, therefore I do recommend trading from the 4 hour charts, the Daily charts or anything in between. I am certainly not saying that you can't trade Divergence off the shorter time frames.

You can, and there will probably be successful Traders out there who do, but it will be harder work and the signals may not be as accurate or reliable.

I appreciate that the MT4 platform does not offer many default time frames for trading, but the platform does provide a basic Script called Period Converter. Here you can add this Script to a chart and use the multiplier input to set another time frame. For example, you may add the Script to a standard 4 hour chart, where you set the multiplier to ‘2’, where you could then open an 8 hour chart from the ‘Open Offline’ feature. This 8 hour chart can then be treated like any other chart, where you can add a template or indicators etc. This script does have limitations though as you can’t add an EA (trading robot) to an offline chart, and if you change profiles or have to reboot your MT4 platform, then you will have to reload the script onto the chart.

There are also times when you may have to refresh your offline chart if you notice that price isn’t moving. While it is not perfect, it can do the job. There are custom indicators in the trading world that do offer a better option as a Period Converter, and I have included one in the download package with this book. As this is an actual indicator and not a script, it is a lot more user-friendly and will not require reloading etc when the MT4 platform is rebooted. You can also add some EAs to the offline charts using this custom indicator.

Divergence can be determined by a number of indicators, generally from the Oscillator group of indicators and there is no-one-correct example to use. Different traders use indicators like the Stochastic, the Commodity Channel Index (CCI), Momentum, Relative Strength Index (RSI), or the MACD, including using the histogram part of this indicator. There are quite a few options and they basically all work the same as they are all considered to be Oscillator type indicators.

All an Oscillator does is go from one extreme area to another, producing overbought or oversold situations. All of the abovementioned indicators are freely available on MT4 as a part of their default indicator package. I do not use any of the above indicators for Divergence, but instead use my trusty MACD Platinum custom indicator. This too is an Oscillator, and as I have described before, it moves around a zero (neutral) level and is similar to a rubber band, where the further it moves away from the zero level, the more it wants to come back to the zero level.

You will see many examples of this indicator in use throughout this book and soon realize its potential for accurate signals. This indicator will also be a part of the download package, as will be two other custom indicators called the QMP Filter and the QQE Adv. The QMP filter places red/blue dots on the price chart to assist with trade entries, and this indicator is actually a combination of the MACD Platinum and the QQE Adv. The MACD Platinum is a crucial part of this trading method so it has to be displayed on the actual chart, but the QQE Adv is not, therefore it does not have to be displayed, but it does have to be loaded onto your MT4 platform for the QMP Filter to work. So, as a part of this package, you will need the following custom indicators which are provided via a download link at the end of the book.

•MACD Platinum (settings 12,26,9)
•QQE Adv (settings 1,8,3)
•QMP Filter (settings same as above)

You will also need to access the Moving Average indicator which comes standard with every MT4 platform. There are three (3) MAs used: the 50 EMA, 100 EMA and 240 LMA. They seem to work for me, but there is nothing stopping you from using your own settings. I use the MAs to help determine the main trend of a market and also to assist with entries and possibly targets.

Also remember that MAs can be considered as dynamic levels of support or resistance. I appreciate that some Traders consider MAs to be useless and lagging and a thing of the past, or possibly even self-fulfilling but I would disagree, believing that they can still be very useful and greatly assist with your trading. They are a part of the whole package and must be taken into consideration when making trading decisions.

There will also be a Template included in the download package and this is the same Template that I use. You can modify this as you wish, but it will at least get your charts setup correctly. I use the same settings on all time frames. *If you don't use the included Template, you will have to go into the settings and under the 'Inputs' tab, change 'ShowMarkers' to true to see the colored dots on the MACD Platinum.* A You Tube video link is also in the download area to show you how to load custom indicators and the template onto your MT4 platform.

THE BASIC CONCEPT OF THIS TRADING METHOD

This refers to the trading method in my previous book, MT4/MT5 &TradingView High Probability Forex Trading, so for readers who don't have that book, I will give you a description on how this trading method works.

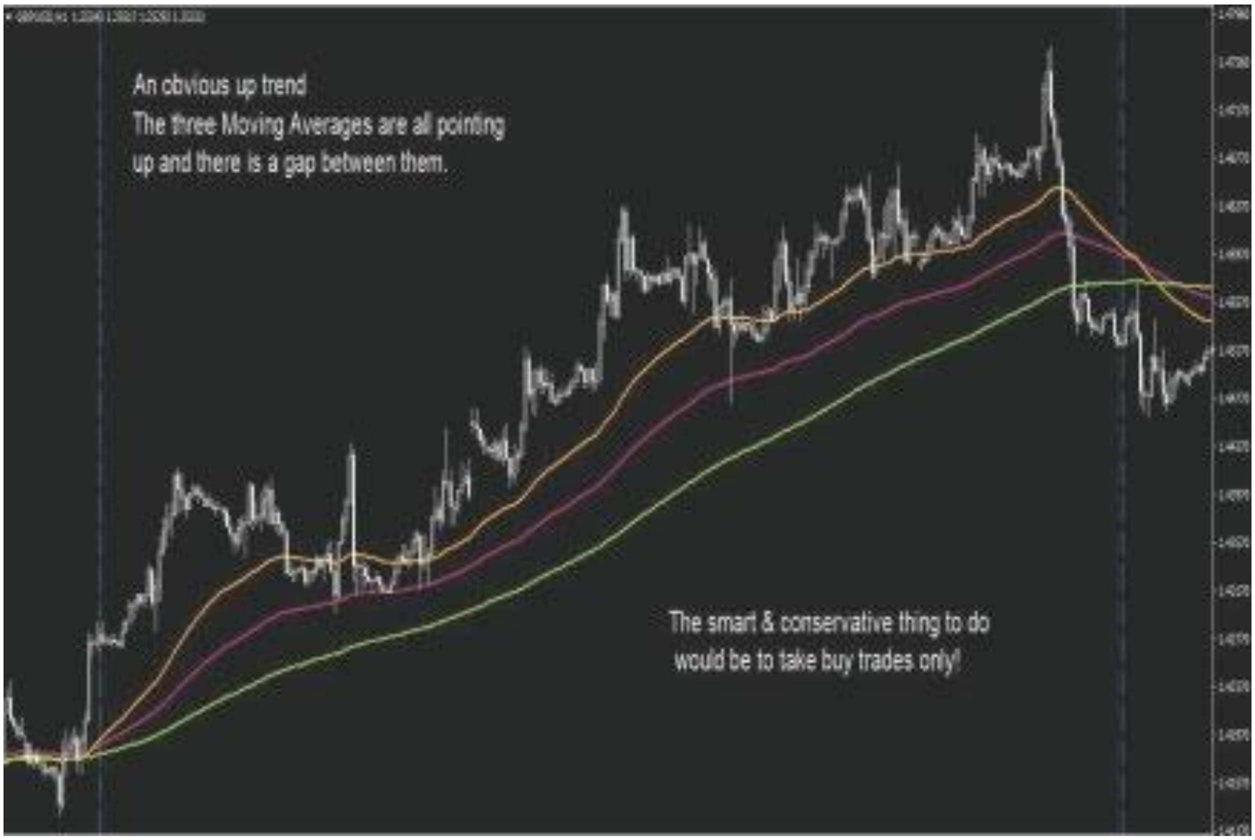


Figure 5. MAs Showing an Up Trend

Generally, I am looking at the trend based on the Moving Averages (MAs) as it is usually the smart thing to do, and that is to trade with the trend. So if the MAs are all pointing down and there is a gap between them, then it is best to take sell trades.

If they are all pointing up and there is a gap between them, then it is best to take buy trades. If they are flat or crossing, then either trade both ways when valid signals present or don't trade at all until there is a clear trend. Also keep in mind that all trends will eventually end and reverse, and that is where Divergence makes an appearance. I will cover more on this later as first, I would like you to have an understanding of my indicators and how I trade them.

Figure 6. MAs Showing a Down Trend

After determining trend, I look at the MACD Platinum. Ideally, I would want the MACD Platinum to be below the zero level for buy trades and above the zero level for sell trades. So here I am looking for the MACD Platinum to return to the zero level and then cross it to the other side. Remember what I said earlier about it being like a rubber band at times?

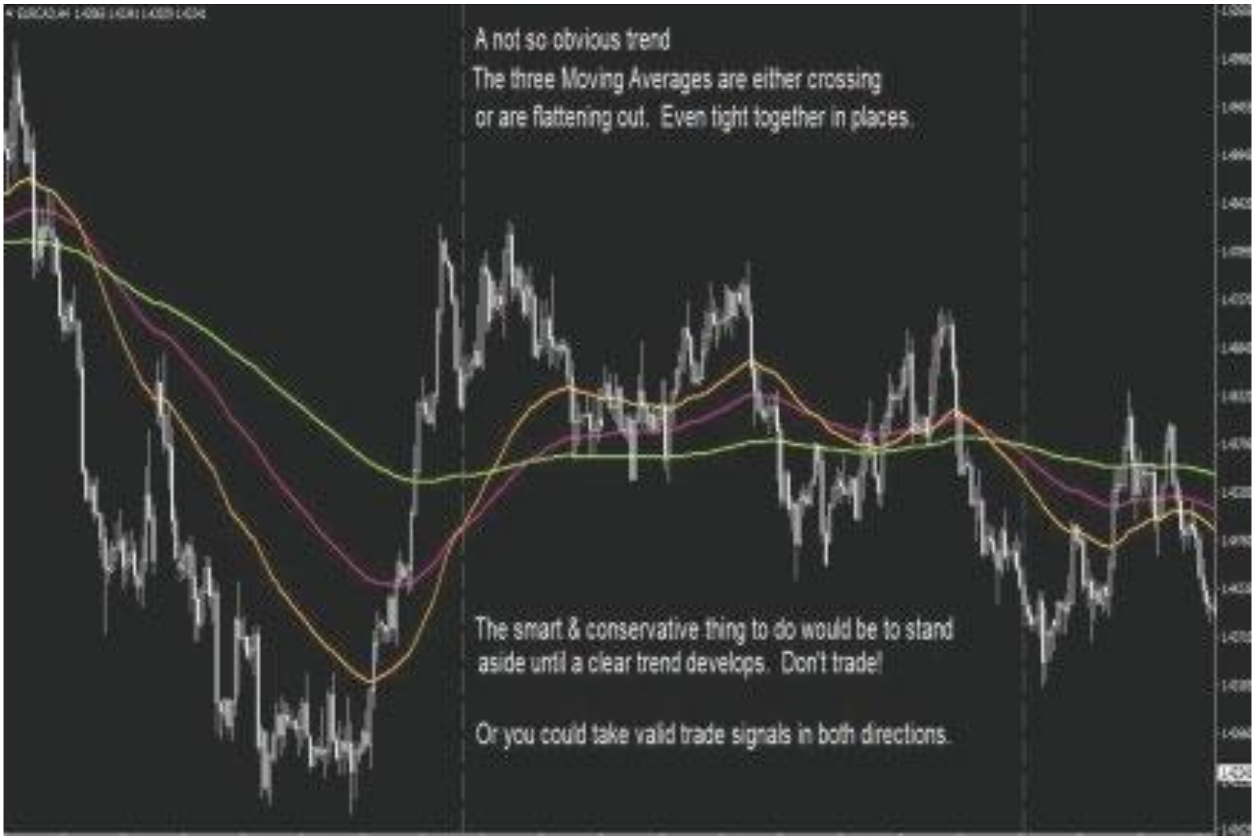


Figure 7. MAs Showing Sideways (Uncertain) Trend

So the MACD Platinum will present a new colored dot on the correct side of the zero level, and if it is in sync with the MAs, then all we need is a corresponding colored dot on the QMP Filter. Once that dot is confirmed, then there is a valid trade entry. Most of the time, the MACD Platinum dot will appear prior to the QMP Filter dot, but there are many times when both will appear on the same candle. Both of these dots only appear at the close of the candle and never whilst a candle is still forming.

If there is a signal, it will show up on the close of a candle, where you then enter the trade on the open of the new candle. Neither indicator repaints. You will see many examples of this set up throughout this book and I also highly recommend that you load the template on a few charts and undertake some historical testing on them. By going back in time and having a look at all of the setups, you will get a good feel for it and I am sure you will be impressed with the simplicity and the accuracy of this method at times.

Figure 8. Examples of Sell Trades

I would like to point out that I find that the stronger trades seem to be when price actually goes back into the MAs. This is classic buying on dips in up trending markets and selling on pullbacks in a down trending market.
These custom indicators help you decide where to enter. There is nothing really new here except the interpretation of my custom indicators.

A sideways market normally occurs at the end of a big move in one direction, where the market is consolidating before its next main move in either direction. As you can see by the screenshot, the chart is very ugly and would prove difficult to trade. While not impossible, you would have to be on your ‘A’ game and keep things reasonably tight when it comes to stops and, be realistic when it comes to profit.

Figure 9. Examples of Buy Trades

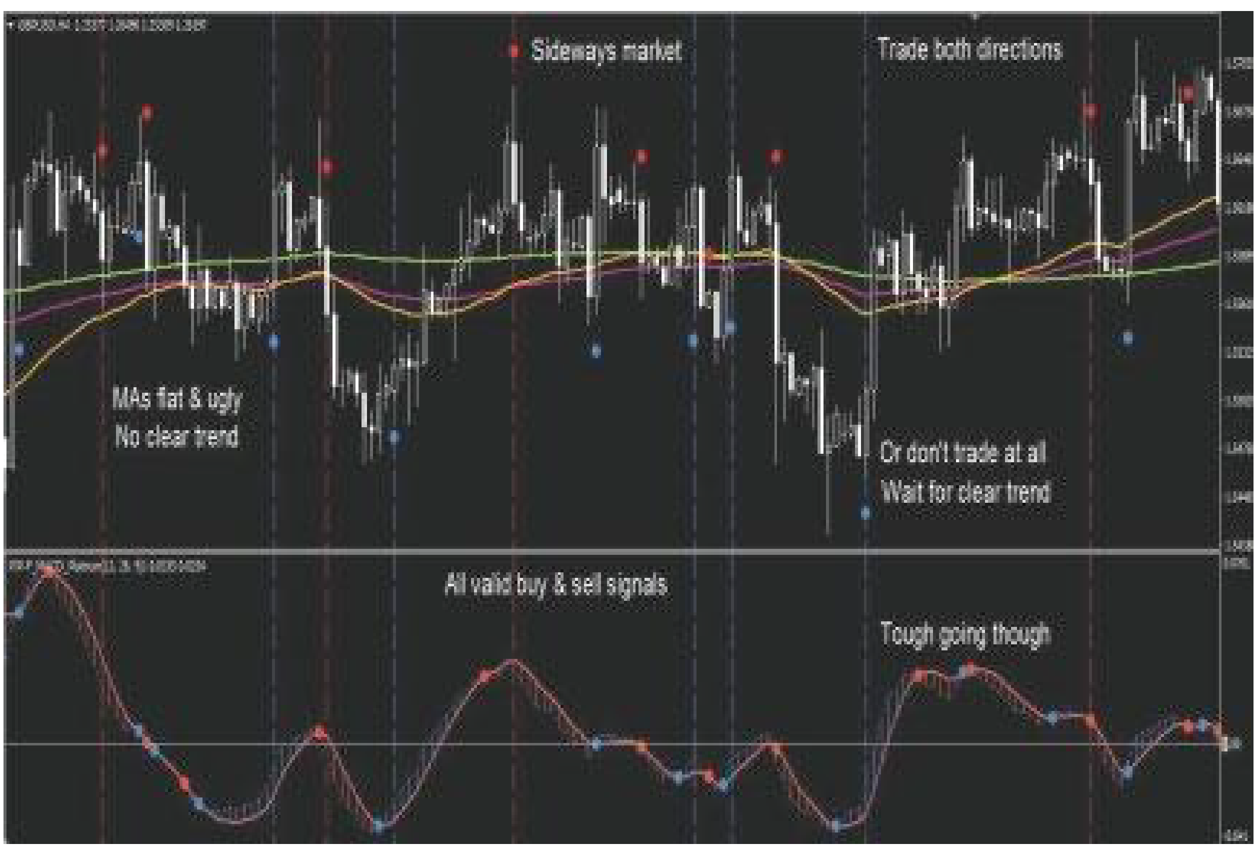


Figure 10. Examples of Sideways Trades

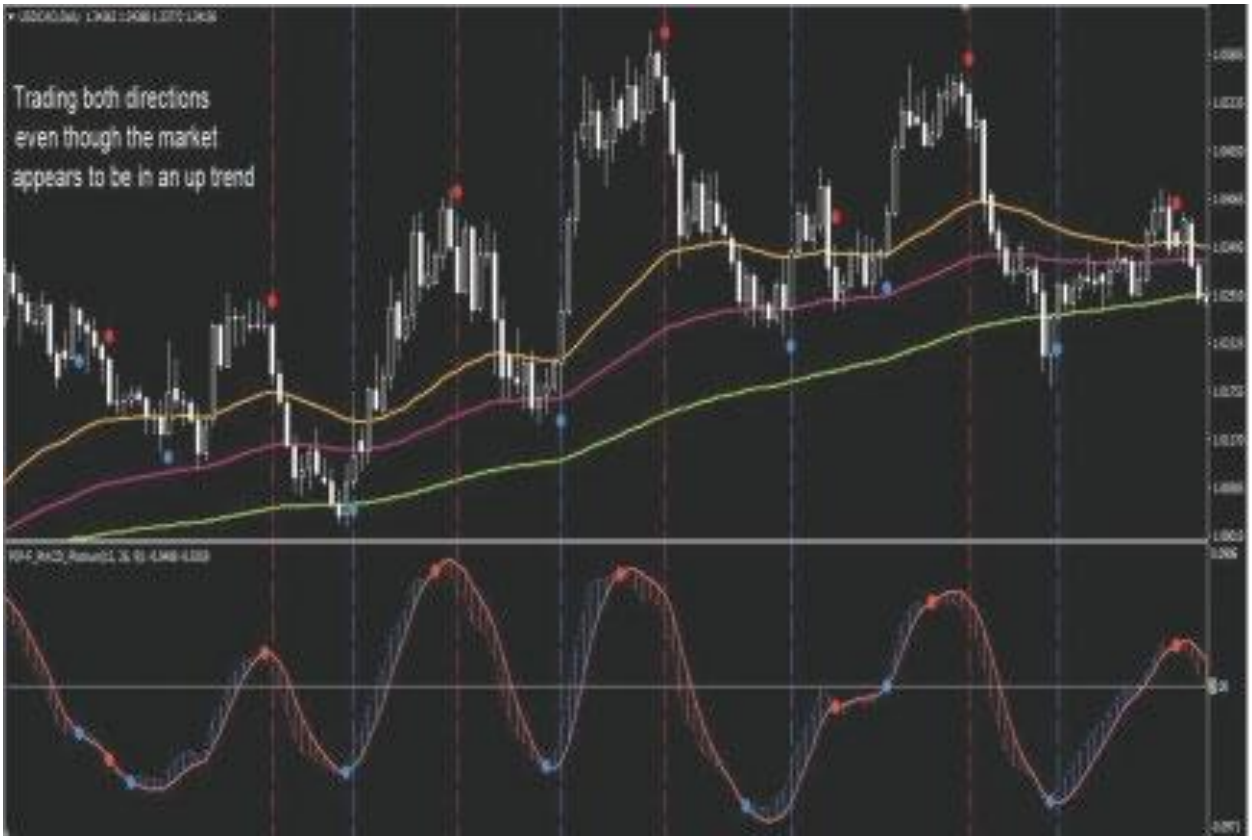


Figure 11. Examples of Trades in Both Directions

In Figure 11, you can clearly see the market is in an uptrend according to the Moving Averages, but it wouldn't be such a bad thing to take trades in both directions. Both with the trend and against the trend (counter trend trades). This presents many times using this setup where there is only one colored dot on each side of the MACD Platinum's zero level, or even 2x dots, with one very close to the zero level.

I would like to make another observation and that is that the further away from the zero level the MACD Platinum red/blue dot is, then generally the stronger the signal (higher probability). This is not always the case, but I am more confident with these types of signals. I would also like to point out, that on the chart above, even though it was an uptrend, it wasn't an extreme high angled uptrend. Trading against the trend in a very strong up or down trend would be quite silly. Use some common sense here and have a look at the angle of the Moving Averages and if they are fanning out.

Figure 12. Example of MAs Spreading Apart

Figure 12 shows an example of where the down trend started off slowly and as price dropped away quickly so did the Moving Averages. They not only pointed down at a greater angle, but they also spread apart, resulting in a fairly steep downtrend.

It is best to go with the trend here and only take sell trades, ignoring any buy set ups. I realize that the trend will change to the upside eventually but why take the risk on trying to find out exactly when? It is best to let the MAs either change direction or at least flatten out a little before committing to the buy side.

As I have mentioned already, place the template onto a few historical charts of various time frames and go back in time to have a look at the set ups. You will see many potential winning trades, and you will see some losing trades. It is not perfect, but if you trade with the main trend, you can expect to win more than you lose.

TRADING WITH DIVERGENCE

Now back to Divergence. The prior method is a solid and robust trading method that can be used as a stand-alone trading method but when you add Divergence to the mix, it may confirm or justify the majority of your trading signals. Therefore when you take the signal, you can take it with a lot more confidence. But as I have said, NO trading method is 100% accurate as there will be losing trades, so you need a Plan B in place if things go against you.

You may be looking at charts and you may spot the Divergence first or it may be a case of a valid buy/sell signal, which is then confirmed by Divergence. There are options here. In some of the provided screenshots I will draw two or more vertical lines to show you where I am taking the readings from. These lines will be grey in color. If the lines are blue or red, then they will signify buy or sell areas. The same applies to my Divergence trend lines where they will be green for bullish signals and red for bearish signals, just to make things easier for you.

Just to be clear, Divergence has to occur directly above/below at least two different points on the chart. By this I mean that the start and finish points determining Divergence must be at, or very close to, the same vertical axis for both the price chart and the MACD Platinum. Directly above/below each other as per the grey

vertical lines I draw on the chart. As mentioned earlier, there are two types of Divergence. Regular and Hidden, and these are both broken down to Regular Bullish Divergence and Regular Bearish Divergence, and also Hidden Bullish Divergence and Hidden Bearish Divergence. Let’s start with the core traditional type of Divergences. Regular Divergence normally occurs at the end of a trend and shows a change in trend direction.

Figure 13. Regular Bullish Divergence-1

Regular Bullish Divergence is probably the one that most readers are familiar with as it occurs quite often and is popular with Stock Traders looking for a market reversal where price has been in a downtrend but is now reversing to the upside.

Here we would have a low on price, followed by a lower low on price, but in the meantime the MACD Platinum would have shown a low followed by a higher low. As price is going down and the MACD Platinum is going up, this indicates bullish Divergence where it would then be expected that price heads up with the MACD Platinum.

This is not always the case though as it might just indicate a decent pullback or retracement in a major trend. But this is still an opportunity to take a trade depending on your style of trading.

Figures 13 and 14 both show a good example of this. Regular Bearish Divergence is where the market has been in an uptrend and has had a high followed by a higher high, whereas the MACD Platinum had a high followed by a lower high. Again there is Divergence between price and the indicator, and here price is once again expected to follow the MACD Platinum and head down. Figures 15 and 16 both show examples of this.

Figure 14. Regular Bullish Divergence-2

Figure 15. Regular Bearish Divergence-1

Figure 16. Regular Bearish Divergence-2

Following are some examples of Hidden Divergences, which can be a little harder to identify on a chart. There is some evidence to suggest that these types of Divergences are actually more reliable than the Regular Divergences.

I guess it may be the case where with Hidden Divergence you are looking for the main trend to resume, so you are jumping on a trade that already has momentum in that direction, whereas with Regular Divergence, it normally signifies a trend reversal which is a shift in momentum in the opposite direction.

Hidden Bullish Divergence is where the market is in an uptrend where price has had a low and this is followed by a higher low. But in the meantime, the MACD Platinum had the same low but was then followed by a lower low. Eventually, the MACD Platinum will turn up and price will continue with the uptrend. That is the theory anyway.   Figures 17 and 18 both provide examples of this.

Figure 17. Hidden Bullish Divergence-1

Figure 18. Hidden Bullish Divergence-2

Figure 19. Hidden Bearish Divergence-1

And finally, Hidden Bearish Divergence is where the market is in a downtrend, where price has made a high and this is then followed by a lower high. In the meantime, the MACD Platinum made a high and this was then followed by higher high. As a result of this Divergence, price should then turn down and resume the downtrend.   Figures 19 and 20 both provide examples of this.

As you can see, the patterns you are looking for are quite basic and simple to identify. Well they are in a perfect world, after the fact, and on simple charts as those shown above. But when in the heat of a trading battle and only concentrating on the right edge of the chart, it can be a little more daunting. Like anything though, practice makes perfect.

I know, I keep harping on that you can't beat looking at historical charts and learning how to identify certain patterns. This not only applies to Divergence, but to any sort of trading.

Figure 20. Hidden Bearish Divergence-2

There have been many books and articles written about Divergence in the past as it has been used as a trading tool for many years now and like many trading tools, there is some subjectivity involved.

What I mean by this, is that everyone has their own interpretation on how to identify certain things, whether this be Divergence, drawing of trend lines or calculating Elliott Wave patterns. There are so called 'Gurus' out there that will advise you that it is their way or the highway.

Who is right and who is wrong? No one really knows and no one really cares. YOU need to find something that YOU are comfortable with and what YOU know works for YOU.

Stay consistent with whatever way you choose to do things and by this I mean, if you do a certain thing one way then do it the same way every time. Only if you are not profitable, or your stress levels are too high etc, would you consider changing the way you do things.

At the end of the day, you want your trading to be as simple as possible, with the least amount of stress and obviously, profitable. If you can consistently achieve this, then who cares what other people think?

You can probably see where I am going here with this. I do things a little differently and may not comply with what the ‘Gurus’ state. But having said that, I also trade the more traditional methods, as I would be silly to ignore any decent trading opportunities when they present.

In this book though, I will show you a few different ways to identify Divergence and a few different ways to trade it. You have already seen some basic examples.

SOME OBSERVATIONS ABOUT DIVERGENCE

The previous examples of Divergence were fairly simple to spot on the charts and are considered the more traditional ways of looking at it. Now I will show chart examples with some not so obvious set ups. As far as I am concerned, these are all quite valid set ups.

A couple of things I must point out though, is that Divergence spread out over a longer time period is considered a stronger signal than Divergence that may just be over a few candles.

Something similar to interpreting a trend line, whereas the more points that touch and the longer that trend line extends, the more relevant it becomes. The same could be said about Divergence.

Also the greater the actual Divergence, or the more obvious it is, then the stronger the signal tends to be. These are generalizations only and not set in stone, but something to be aware of.

While looking for Divergence, you may spot two levels that are equal but the other levels are not. An example might be that you have two equal highs on price, but the MACD Platinum may be showing a high followed by a lower high.

This would still be considered Divergence (Regular Bearish to be precise) as there is still a Divergence between price and the MACD Platinum.

This is actually quite common and some may look at it as a Double Top or Double Bottom pattern, and keep in mind that this could occur on either price or the MACD Platinum. Figure 21, which follows, is an example of Regular Bearish Divergence when there are double tops on price.

Figure 21. Regular Bearish Divergence with Double Tops

Figure 22 is a screenshot of where there was an initial Hidden Bearish Divergence setup marked as No.1, which more than likely failed due to it being stopped out.

Now if that was the case, a little patience would have paid off as the second Hidden Bearish Divergence setup marked as No.2 presented a few hours later, and that would have more than made up for the previous loss.

This does happen quite a few times, where you may be stopped out on one or two attempts at a Divergence setup, only to eventually hit the winner if you are prepared to wait a little and be committed to the setups.

Figure 22. Hidden Bearish Divergence 2 x Attempts

VARIOUS EXAMPLES OF DIVERGENCE

Figures 23, 24 and 25 show various examples of Divergence on the charts. I am using red trend lines for Bearish Divergence, which as you know, suggests price should head lower, and green trend lines for Bullish Divergence where price should head higher.

You can see that most of these setups were successful to some extent, whereas some were better than others.

Keep in mind also, that you don't know for sure that Divergence has been created until the right hand side of the trend line can be drawn when Divergence has actually been confirmed.

Figure 23. Multiple Examples of Divergence -1

Figure 24. Multiple Examples of Divergence -2

Figure 25. Multiple Examples of Divergence -3

There are times when you can see it forming due to the large extremes between price and the MACD Platinum, but you won't take any action until it has been confirmed. You can also see some examples where there is an opposite Divergence within another longer Divergence.

It can be a little deceiving on historical charts as you are seeing the left hand side of the trend line on the longer Divergence first, but remember that this Divergence is not confirmed until the right hand side of trend line can be drawn, and in the meantime, there was a confirmed Divergence within, so you would act on this Divergence initially, and then the longer one once it has been confirmed.

ENTERING A TRADE AFTER DIVERGENCE HAS BEEN IDENTIFIED

Here I will demonstrate a few different options, some conservative and some a little riskier. When you trade conservatively, you tend to give up some potential profit as you are waiting for a better confirmation of your trade entry.

When you take the riskier trading route, you will certainly increase your profit when you are right, but in the meantime you may suffer a higher number of losing trades. Both methods have their advantages and disadvantages, so I will share a few examples of each.

This is the way I would approach it. If there has been a confirmed Divergence over a longer period, then I would prefer to wait for a confirmation from the QMP Filter before entering a trade.

So if you had Bullish Divergence, then you would be looking for a blue QMP Filter dot to confirm the buy entry. It is the exact opposite with Bearish Divergence, where you would then be waiting for a red QMP Filter dot before you took the sell entry.

In Figure 26 you can clearly see Divergence being formed and confirmed over an extended period, where a smart trade entry would be to wait for a confirmed QMP Filter dot that provides further confidence that the trade direction will move in your favor.

Figure 26. Trade Entry Examples using QMP for Entry-1

Figure 27. Trade Entry Examples using QMP for Entry-2

Figure 27, provides further examples of waiting for the QMP Filter dot before taking a trade entry. Sometimes you may have to wait for a few candles, where at other times, the QMP Filter dot and the MACD Platinum high/low (possibly the blue/red dot also) may occur at the exact same time.

Even though this screenshot appears to show Bullish Divergence during Bearish Divergence, remember that Divergence is not actually confirmed until the trend line can connect two points that confirm same.

Do not be confused by where the trend line begins as we don’t know this until Divergence has been identified and confirmed. So always work across the chart from left to right, but look at the right hand side of the trend line to see which order they are presented.

Figure 28. Trade Entry Examples using QMP for Entry and Failing

So far I have provided some excellent examples of profitable Divergence trades that don’t seem to fail. I wish this was the case but as I stated earlier, while Divergence is generally right more times than it is wrong, it is certainly not all rainbows and unicorns.

There are times when it just won’t work out. In Figure 28, you can see a very good example of Bearish Divergence, followed by three (3) Bullish Divergence examples.

The first two (2) Bullish Divergence trades would have more than likely have been stopped out for losses. But as you can see, the third Bullish Divergence trade would have been a winner.

This chart example is actually not too bad, as the first sell entry and the subsequent downtrend would have had you in that trade for some time and in the meantime, you may have been taking those buy trades based on the Bullish Divergence and suffering small losses along the way.

But as your sell trade was still open, then all the losses would have be doing, is eating into your overall profit.

This is quite a common setup, where Regular Divergence is normally a trend trying to reverse, but this sometimes takes a few attempts where eventually the trend will reverse.

In the meantime, if you kept your previous losses small then it is not that difficult to at least recover some of those losses, if not all. Patience is required at times, but you already know that.

This would be the case if your broker allows you to hedge trade (trade in both directions at the same time) as I appreciate that in some jurisdictions, this practice is not permitted. There will be more on trade management later in this book, so don’t worry as I haven’t forgotten about it.

TRADE EXAMPLES ON THE GBP/JPY 4HR CHART

Now let’s put it all together and see how we trade Divergence. The best way to achieve this is by using chart screenshots of actual setups, just like I have been doing previously, but now I will add all the bells and whistles to the chart so you can see my full set up.

Figure 29 is a screenshot of GBP/JPY 4hr chart which covers about a month of trades. Here I will go through each trade individually and give you my thoughts. To keep things simple for now, I am entering all new trades on the confirmation of the colored dot on the QMP Filter once a signal has been confirmed. These are the red and blue dots on the actual price chart and once they are confirmed at the close of a candle, I would take the trade on the open of the next candle.

Trade No.1: The Moving Averages (MAs) are tight so I would take trades in either direction. There is Regular Bearish Divergence here and as the MACD Platinum (MP) is above the zero level, I am looking for a sell trade anyway. So a combination of this and Divergence presents a good sell signal. You could have taken a normal sell trade on the first red QMP Filter (QF) dot which may have resulted in a loss due to being possibly stopped out, but the 2nd attempt at a sell after Divergence was confirmed, would have more than made up for that loss.

Trade No.2: Again, the MAs are still tight and then there is a confirmed Hidden Bullish Divergence. As the MP is below the zero level combined with Divergence, this is a fairly good buy signal.

Trade No.3: It is a little hard to see the trend line on the price chart but again there is a very good Hidden Bullish Divergence setup. The MAs are slowly starting to spread and head up and with the MP well below the zero level, this makes for a very good buy signal.

Figure 29. Full Chart Setup with Multiple Examples

<u>Trade No.4:</u> Now I would be going against the trend (MAs). Would I take it? More than likely but I would keep it tight and aim to take price back into the MAs, which it did nicely. There is Regular Bearish Divergence here which helps confirm the counter trend trade.

<u>Trade No.5:</u> This is basically an extension of Trade No.4 where price has contin ued to rise but the MP has continued to fall. The MAs are definitely in an uptrend now, but as we all know, trends don't go on forever. MP is still above the zero level and as this is the second attempt at going short, I would definitely be taking this sell trade. As I stated earlier your first attempt at a trend reversal might not work out, your second attempt may also fail, but generally a third attempt will be successful. And as you can see by the chart, Trade No.5 proved to be a good one.

<u>Trade No.6:</u> Now this is a quite common chart pattern here. The trade above for ced a trend reversal where the MP drops down to the other side of the zero level and then presents a new blue dot. In this case there was no confirming QF blue dot which kept me from taking a buy trade early, but sometimes there is.

This is not a good time to take a buy trade. But what does happen a lot of the time is that price will continue to fall and then you are presented with Regular Bullish Divergence as the MP begins to head up against price. This occurs on a fairly regular basis and you could make this your bread and butter chart pattern to look out for. On this example the MAs are a little messy and appear to be turning down by the time the signal is confirmed, where you would just aim to take price up to the MAs before exiting or tightening up your stop. It worked a charm on this one but, I am looking at a chart in hindsight.

Trade No.7: This is a good trade setup using the High Probability Method as the MAs are now heading down, price has touched the MAs (bouncing off them) and the MP is above the zero level. Now combine that with the obvious Hidden Bearish Divergence, then there is a very good chance the downtrend will continue so a sell trade would be taken. As mentioned previously, I will go into trade management a little later in the book so don't be too concerned about exits etc. at this stage. But as you can see from those potential seven trades, there was plenty of opportunity to make some decent pips.

‘TIGHT’ DIVERGENCE

Now I would like to show you some different examples of Divergence, which I would consider ‘tight’. By ‘tight’ I mean that the Divergence is basically occurring within a few candles. This may be as low as two (2) candles out to about six (6) or more candles.

So instead of being spread out over thirty (30) or so candles, this ‘tight’ Divergence is occurring within a shorter distance. Generally they will involve candles that are forming the same low or high on price action, or the same low or high on the MACD Platinum.

Whereas before, I was mainly talking about Divergence that was spread out over multiple lows or highs on price action, or the lows and highs on the MACD Platinum.

Also remember what I stated previously, where it is considered that the longer Divergence takes to develop, generally the stronger or more reliable it is? This is not always the case, but it is most of the time.

Figures 30, 31, 32 and 33 provide some examples of ‘tight’ Divergence setups. These ‘tight’ Divergences can be a little riskier to trade, but normally you can reduce risk by keeping your stop a bit tighter, if you are basing your stop on a recent technical area like the low or high the Divergence was presented on.

And to take that one step further, instead of waiting for a QMP Filter confirmation (the red or blue dot on the price chart), take the entry based on confirmation of the MACD Platinum red or blue dot.

As we know the QMP Filter dot and the MACD Platinum dot can occur on the same candle, but most of the time this is not the case as the MACD Platinum tends to lead the QMP Filter.

It will never be the case where the QMP Filter produces the new red or blue dot before the MACD Platinum due to the fact that the QMP Filter is made up of both the MACD Platinum and the QQE Adv custom indicators.

Figure 30. Hidden Bearish Divergence (Tight)

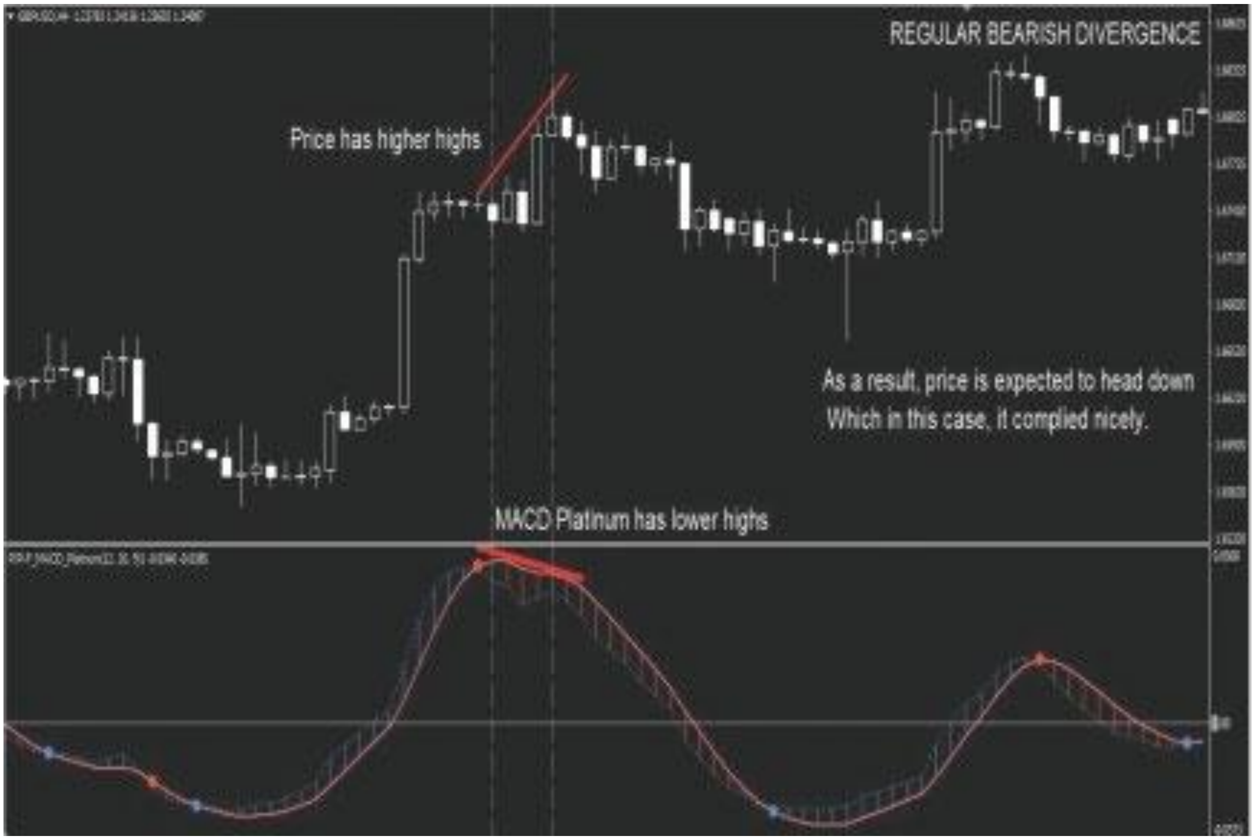


Figure 31. Regular Bearish Divergence (Tight)

Figure 32. Hidden Bullish Divergence (Tight)

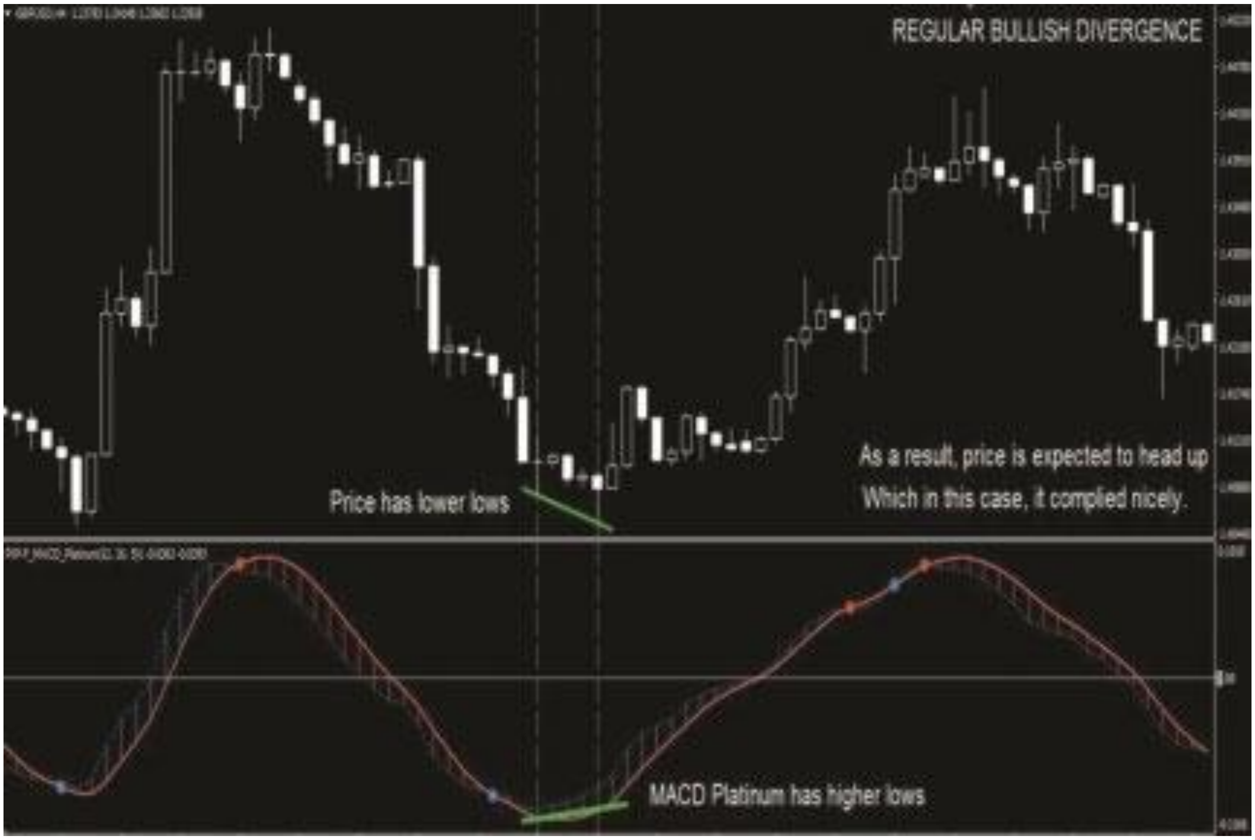


Figure 33. Regular Bullish Divergence (Tight)

In these screenshots, you can see ‘tight’ Divergence being formed and an entry based on the MACD

Platinum only. This may get you into a trade one or two candles earlier than waiting for confirmation from the QMP Filter. Here your entry can normally be closer to the low or high, and therefore give you an opportunity for a tighter stop if that’s your trade management plan.

This all sounds good in theory and when you have a look at historical charts, there are many examples of this setup being a clever way to trade. But, and there is always a ‘but’, as we know things don’t always go to plan.

There are also times that this will get you into a trade way too early which, depending on your trade management plan, may stop you out of quite a few trades prematurely whereas if you had waited for the QMP Filter confirmation you may have had a better result. These charts have also been expanded to give the reader a clearer understanding of the actual set up and trade entry level.

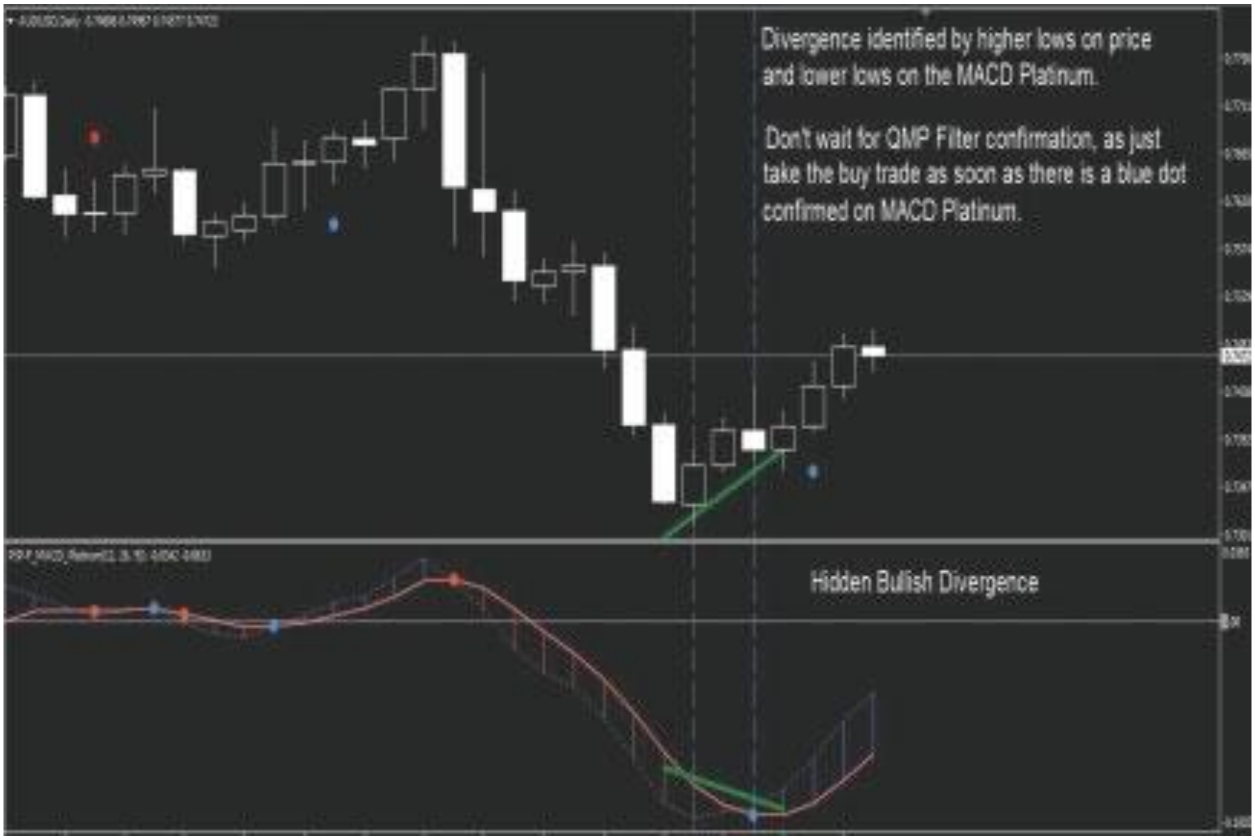


Figure 34.Early Entry Example Based on MACD Only-1

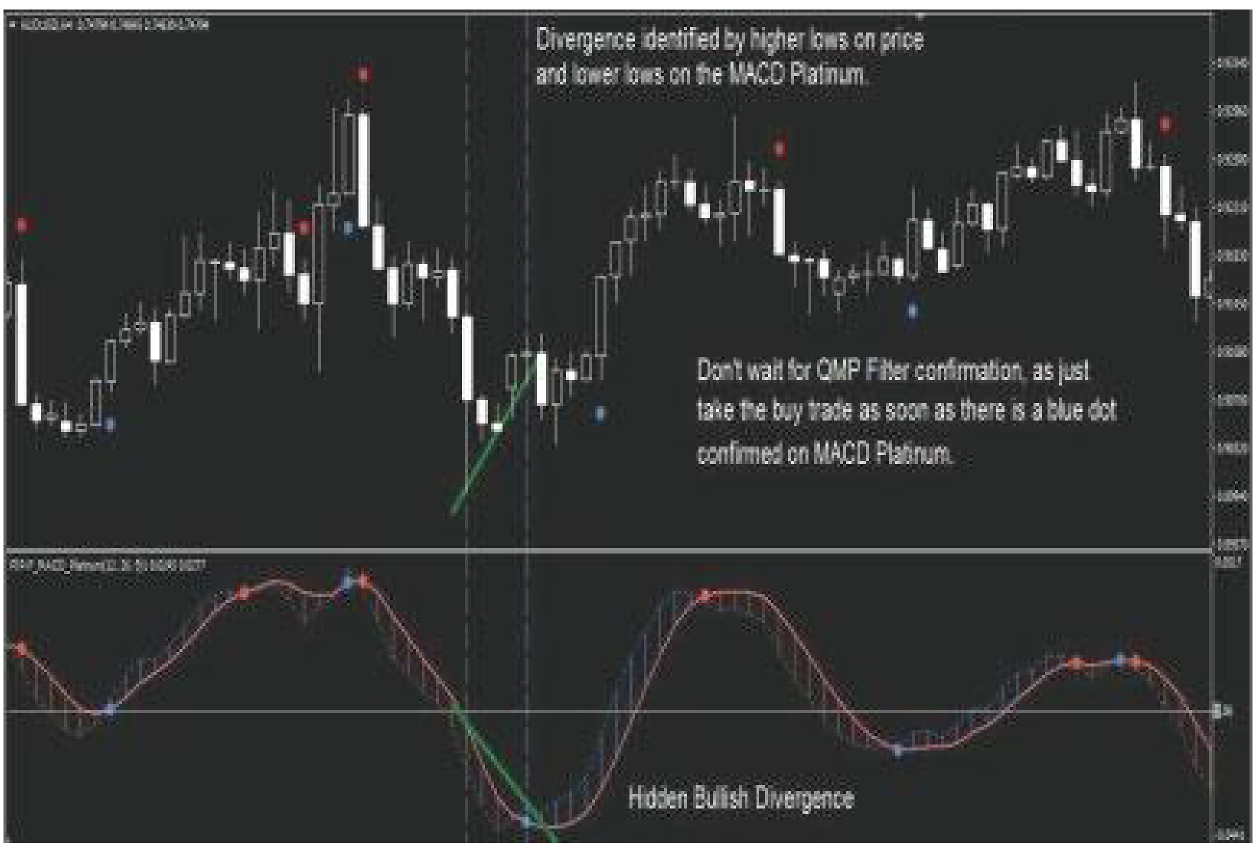


Figure 35.Early Entry Example Based on MACD Only-2

Figure 36. Early Entry Example Based on MACD Only-3

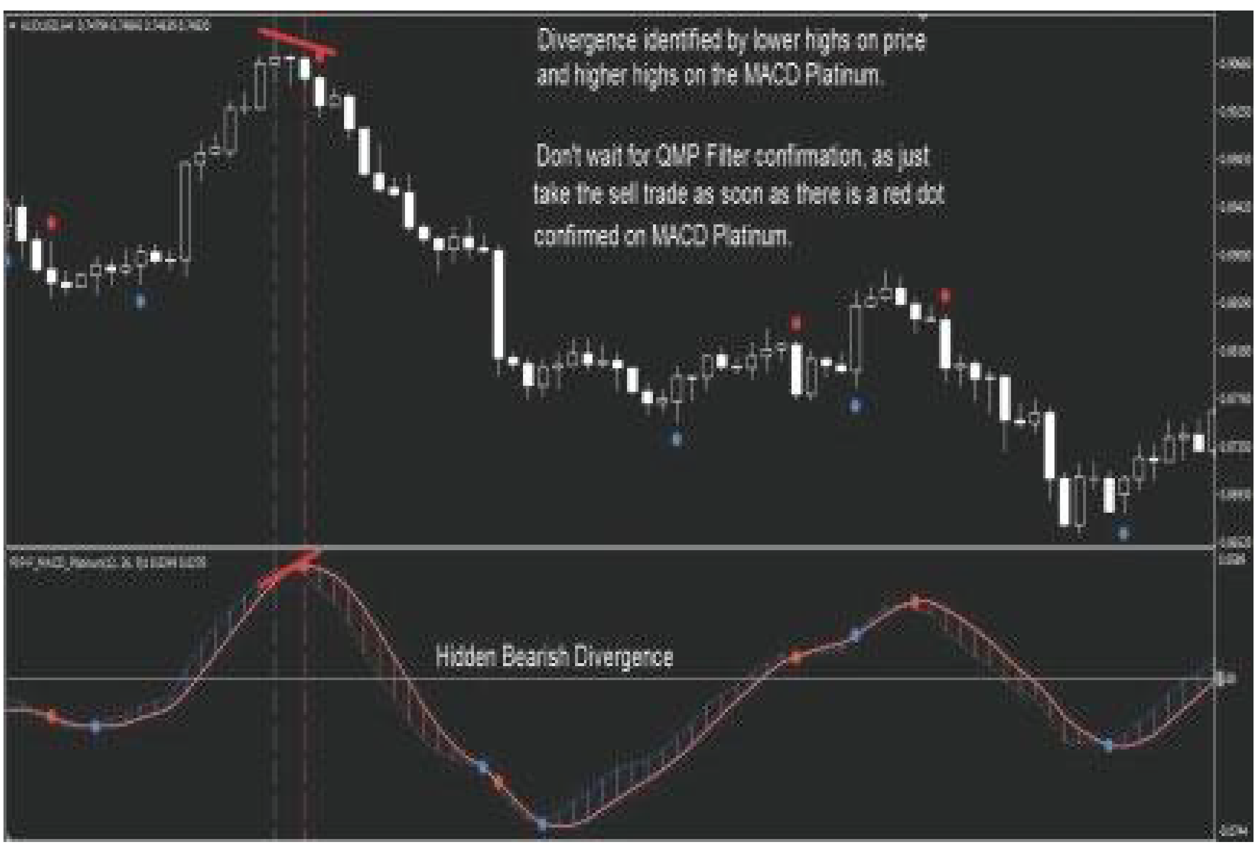


Figure 37. Early Entry Example Based on MACD Only-4

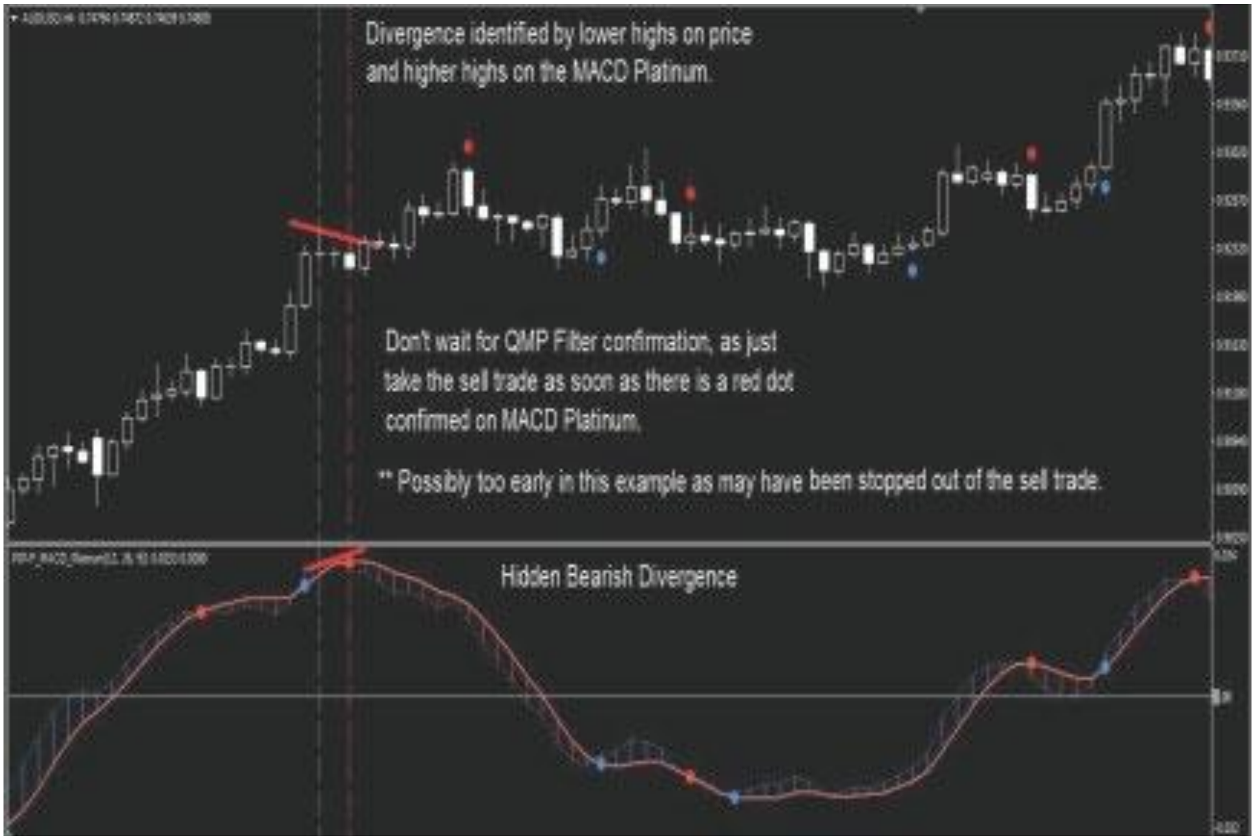


Figure 38. Early Entry Example Based on MACD Only That Failed

There are advantages and disadvantages of all trading techniques. If you get in early, then you may end up with more trades being stopped out, even though you may have reduced overall risk based on stop placement.

If you wait a little longer for further confirmation, then you may miss a part of the move and therefore reduce your profit potential, and also be in a smaller position due to your risk management plan. There are trade-offs everywhere so you need to find something that you are comfortable with.

•How aggressive do you want to be?

•Would you prefer a higher profitable strike rate?

•Do you only want to trade with the main trend?

There are many options, and I will go into a few of them next.

THE SMART WAY TO TRADE THIS

The smart and conservative way to trade this system is to use a combination of both the signals created by the custom indicators, and combine that with longer term Divergence and only take trades with the main trend. I would also add that it would be better to trade off the 4hr or Daily charts, only because I am of the opinion that they form more reliable and consistent trade signals. This would be a trade taken once all signals have been confirmed and there would be a definite stop loss in place just below/above a recent low/high depending on which way you are trading. Figures 39, 40, 41 and 42 provide examples of safe conservative trades on the Daily, 4hr, 1hr and even the 5m charts. As you know I am not a fan of the shorter time frames, but it shows that you can basically trade this method with Divergence on just about any time frame. Obviously your decision making process has to work a lot quicker when trading on the smaller time frames. But as mentioned earlier, while it is not for everyone, it can be done.

Figure 39. Safe Conservative Trade Example on Gold Daily

Figure 40. Safe Conservative Trade Example on GBP/USD 4hr

Figure 41. Safe Conservative Trade Example on GBP/JPY 1hr

Figure 42. Safe Conservative Trade Examples on EUR/USD 5m

STOP LOSS PLACEMENT

Now this is very subjective and a lot depends on what you want out of your trading. Some traders are happy with +30 pips profit on a particular time frame trading a particular pair, whereas other traders may want to squeeze as many pips as possible out of a trend. It is up to the individual trader.

No one knows how long a trend will last. I understand that by using technical analysis, we are trying to work out things like trade direction, trade duration and also possibly trade targets by using tools that we think gives us an edge.

This is all generally based on historical data where we believe what has happened in the past, has a fairly good chance of happening again, or something like when price hits a certain level, then this should happen.

Whatever you think should happen or may even happen will not necessarily happen, because at the end of the day price does what it pleases and is not dictated by your theory or anyone else’s theory.

Sometimes you can get caught up in the analysis side of things where subconsciously you may form a certain opinion that is difficult to shake. For example you might be adamant that the Aussie dollar is weak so you would be more inclined to sell the AUD whenever the opportunity presented, and be reluctant to buy if there was in fact a valid buy signal.

This is something you have to be aware of and actually trade what you see and not what you think should happen. I have been guilty of this at times and you don’t realize until it is too late, and in the meantime you have missed out on potential profits due to an ego issue.

Trade what you see in front of you and be ready to change your mind if there is a reason to. We are here to make money, not show off or prove to your trading buddies that your analysis was right (eventually). So now I will give you some of my thoughts on this.

First, I will discuss stop placement. The methods I have discussed previously, nearly all involve turning points in the market which are either confirmed by a red/blue dot on either the QMP Filter or the MACD Platinum. These make it very easy for the placement of a technical stop just on the other side of these turning points.

I would be looking at placing a stop a few pips above the recent high or just below the recent low. Remember your money management rules, so you can work out a position size based on your risk percentage per trade.

As in this case, you will not have the same size stop for every trade due to the fact that you are basing your stop loss on a technical point and not a fixed number of pips. Figure 43 shows various examples of this.

Figure 43. Basic Stop Loss Placement Examples

If you are trading on the longer time frames as I suggested, then sometimes the stop placement, as mentioned previously, may be a little uncomfortable due to their sheer size. Some traders will balk at a -300 pip stop loss because the number is so big.

It is more of a psychological thing than anything else as the trader should just reduce their position size to compensate for the larger stop loss. Then they may think that trading such a small position size will prevent them from making any ‘real’ money from trading.

But at the end of the day, you do the math with a 2% risk on a trade and looking at a 1:2 risk:reward ratio, whether you are trading off a 15 min chart with a -20 pip stop loss and +40 pip target, or off a Daily chart with -300 pip stop loss and +600 pip target. If either target is hit, you will end up with the same dollar profit with the exact same risk. There is no difference. It is all in the mind here and is a perception that some traders have. Trades on the 15 min charts will come around a lot quicker than waiting on the Daily charts. I understand that, but I am talking about risk here.

Now getting back to my point of a stop loss being a little big for some traders, then I have another suggestion for you. Instead of using the purely technical level as mentioned previously, you could use a certain number of pips above/below the candle high/low that the QMP Filter dot formed on that gave you the signal. Now a lot of the time, this may already be at the technical level as previously discussed. That would not be a problem and would probably be the better option anyway. But if not, then you may be able to substantially reduce your overall risk in pips if you would be more comfortable with that.

Another possibility is that some traders can only afford smaller trading accounts therefore may find it difficult even risking 2% on a longer time frame like the Daily charts, whereas they can't nominate a small enough position size to stay within their risk parameters due to their broker's requirements.

There are ways around this as you can either go with a broker that offers tiny micro accounts where the smallest pip increment of 0.01 lot is actually only equal to $0.001 (1/10th of a cent) or you could trade off Oanda's fxTrade account that works in units instead of lots where you can really drill down your position size. There are always options if you look hard enough. How many pips above or below the QMP Filter dot's candle high/low? That is up to you. Again go for consistency.

Pick a currency pair and a time frame and look back over the historical charts just to get an idea what an average safe distance would be. This will vary from pair to pair and timeframe to timeframe. Be consistent, and adjust it if it isn't right for you.

Remember a stop loss is there to protect your capital (reduce risk) and there is nothing to stop you from modifying it once the trade is open. Don't extend it away from the entry price too far as that is a bad habit to get into. Only move it to a smarter position further away from the entry, as long as you are still within your risk tolerance parameters. However, it would be better if you could tighten

the stop by moving it closer to the point of entry as that just makes way more sense.

You really have to find the sweet spot for you. Do you want a really tight stop loss where you will more than likely suffer a higher percentage of losing trades, or do you want a larger stop and have a higher percentage win rate, but with bigger losses in the process? Get back to the comfort zone thing here and do what works for YOU.

As you can see in Figure 44, there are many examples of very tight stop loss placement by using the candle that the QMP Filter was formed on. Remember though, you would be entering a trade on the open of the next candle so in most cases there is still fair bit of room for the trade to move. But as you can see, some of these trade examples would be stopped out with that particular stop loss setting.

This is a good thing in some cases as they were bad trades. I am basing this chart example on a trade being taken on every new QMP Filter dot without any other indicators to assist. While it is not likely these days, I have traded like this in the past with some success.

Figure 44. Tight QMP Stop Placement

As I keep saying, everyone has a different way of doing things. You may be a trader who is happy with +30 pips from every trade taken on the 4hr charts, or a trader that is only after +5 pips from the 5 min charts. Or you may be a trader that looks for a 100% move of the previous range as your target, or the one that aims for a fib or pivot level, a previous level of support or resistance, or just close out your trades after a certain time has elapsed. Everyone is different.

With the initial stop placement I have suggested, you could then trail this stop any way you like once you have begun to lock in some profit. You may even wish to scale out, and again this is up to the individual.

Personally, I like to either trail my stop at a reasonable level and I also enjoy scaling out where I will take partial profit (normally half of my position size) at a certain level and then move the remaining partial position's stop loss to the point of entry level.

Here I am locking in some profit and still giving my trade a chance to produce further profit if the trend remains in my favor. Some 'Gurus' would disagree with this method due to their perceived ideas of risk:reward ratio issues, but it works for me as it helps with the psychological side of trading.

There is just something in the brain that enjoys seeing some profit cashed out while still in a trade in an overall 'no loss' situation and the potential for greater profit. But I will have to be honest here, as I do find that the majority of my 2nd part of the trade generally closes for less of a profit than the 1st part.

But every now and then, the 2nd part will take off where you will feel all warm and fuzzy about it. Again, do what works for you and what you are comfortable with. Don't beat yourself up if you only took +30 pips out of a +200 pip range.

TRADE RE-ENTRY TECHNIQUE

With any trading there are times when you would be stopped out, but the buy or sell signal that got you into that trade remains valid (or current), so we need a way to get back in. There is a chance that we could recover the previous loss from a new entry, basically on the same trade setup. The easiest way to achieve this is by the use of trend lines and Buy or Sell Stop Orders. If you were stopped out and the original buy or sell signal is still valid, then it is just a matter of drawing a trend line across the highs or lows, and then waiting for a clear break either above or below that trend line, where you would have placed a Buy Stop or a Buy Sell Order to get you back into the trade.

As a reminder, or for those of you who don’t know, a Stop Order is an order placed in a position where the trend picks up the order on the way through and continues in that same direction.

For example, if it was a Buy Stop Order, then the current price would be below the Order level, where you would be expecting price to rise, activating the Buy Stop Order and then continue up. If it was a Sell Stop Order, then current price would be above the Order level, where you would be expecting price to fall, activating the Sell Stop Order and then continue down.

Drawing trend lines is also a little subjective where different traders have different ideas on how they should be drawn. I look for a recent extreme high or low and then just draw my line across the bodies of the candles, ignoring the wicks (shadows) of the candles. Some would disagree with this, and I can understand that, but this way works for me.

Like I said previously, as long as you are consistent with what you do, it doesn’t really matter. With trend lines, which are a default tool on all MT4 platforms, you draw them across the highs when you are looking to buy, and across the lows when you are looking to sell.

Don’t get too hung up on how they should be drawn, as long as you are consistent and follow the basic rules as I explained above you will be fine. Practice this on a few charts and you will soon see how easy it is. There are traders out there that base their whole trading strategy on trend line breaks, so they can be a very useful and powerful part of your trading arsenal.

Figure 45. Trend Line Sell Re-Entry Example

Figures 45 and 46 show examples of re-entering a trade based on the break of a trend line after being initially stopped out. I have kept the charts fairly basic so you can concentrate on the trend line setup to see how easy it can be. The re-entry point is up to the individual trader.

Do you wait for a confirmed close above/below the trend line, or do you just set a Buy/Sell Stop Order at a price above/below the trend line? It is up to you, but again be consistent.

Obviously you will have to rethink your stop loss placement due to the fact that you have had a new low or high on price, so just be aware of your risk parameters when considering position size on the subsequent entry.

Figure 46.Trend Line Buy Re-Entry Example

TREND LOSING STEAM AND TIME TO TAKE ACTION

How do we know when a trend is losing steam or where you might find a sticking point? It is the sticking points, where I normally close part of my position and lock in some profit. Now forgetting about Divergence for a minute, remember how I said that the trading is based on the colored dots and where they are positioned when looking at the MACD Platinum? If it is a blue dot on the MACD Platinum below the zero level, then I am looking to buy. If it is a red dot on the MACD Platinum above the zero level, then I am looking to sell. It is fairly straightforward.

This brings me to my first sticking point or point of interest and that is the zero level on the MACD Platinum. When a trade is entered and then the MACD Platinum crosses the zero level, then that is a time I may be looking to move my stop loss. Depending on my opinion of the trade, I may move my stop loss into a tighter position (reduce overall risk), move my stop loss to break-even, close part of my trade and adjust the stop loss, or just close the trade completely. Figure 47 below shows a sell trade followed by a buy trade, and where each crosses the MACD Platinum zero level.

What else should we consider for a possible sticking point or a place to take some action? The next obvious point is when there is an opposite colored dot on the MACD Platinum. So using the same example where the first trade was a sell, as soon as that blue dot on the MACD Platinum presented below the zero level, then that would be a time to take some action. If you hadn’t moved your stop loss already, now would be a good time to do so.

Figure 47. MACD Platinum Crossing Zero Level

A further sticking point would then be an opposite colored dot on the QMP Filter. Using the same example again, as soon as the confirmed buy signal was presented, then again either close out completely or move your stop. And the final sticking point would be if the MACD Platinum then crossed back to the same side as it began.

Using our sell example, the MACD Platinum started above the zero level, then crossed down below the zero level, and then eventually crossed back up through the zero level. You would definitely want to be out of the trade by the time this happened. Figure 48 shows two possible sell trades with all the possible action points marked by the gray vertical lines.

Figure 48. Stop Loss Action Points

DIVERGENCE FORMED ON THE WRONG SIDE OF THE MACD PLATINUM ZERO LEVEL

Now when you add Divergence to the mix, it can make things a little trickier when it comes to stop loss adjustment. One thing I want to point out, is at times when you see the confirmation of Divergence, the MACD Platinum may already be on the wrong side of the zero level, or at least very close to it. I would still take the trade in this case as long as the first leg of the Divergence was formed on the correct side of the zero level.

The same could be said for Divergence that begins to form on the wrong side of the MACD Platinum zero level and is confirmed on the correct side of this level. You could still take the trade. All it does is possibly put some doubt in your mind with regards to trade management as the concept of this whole system is based on the position of the MACD Platinum in relation to its zero level. But look at the big picture and judge the possible overall likelihood of the trade being a winner.

For example, is it in a screaming downtrend and you have a new sell signal staring you in the face, or the same downward trend but there is a buy signal? I know which one I would rather take (the sell).

Other things to take into consideration would be the strength of the Divergence, how close is price to the MAs, or even support/resistance levels, or is there a major news release due out soon. These are all things that you could take into account. If in doubt, then stay out and so-be-it if it takes off in your preferred direction. That is just trading.

Figure 49. Divergence Trade MP Close to Zero-1

Figure 50. Divergence Trade MP Close to Zero-2

TRADE MANAGEMENT

Some other factors I consider on the charts include where price is in relation to the MAs, especially the 240 LMA. Generally this will be when I am in a counter trend trade, and once price hits the 240 LMA level I would be looking to remove some profit from the table. Depending on your profit requirements, the same thing could also be said for either the 50 or 100 EMAs. It is your choice. MAs can be like price magnets at times. Remember earlier I stated they were dynamic levels of support and resistance? They are a common indicator used by many traders, so it may be the fact they are self-fulfilling. Who knows, but they can be a very useful tool at times.

Previous levels of support and resistance are also important points to consider as price will sometimes stall at these levels, before either continuing through them or reversing at them. It is a good place to consider your options if in an open trade, by either adjusting your stop, a partial close or closing the entire trade out. Support and resistance levels are better identified on the Daily charts or the Weekly charts just by looking for levels on the chart where price has stalled or reversed several times over. Remember that it is a price level zone, not a specific price as such. Again, this is very subjective and is the opinion of the individual trader and how that trader interprets the chart.

You may also wish to watch for chart patterns, or even candlestick patterns. Look for signs of a stalling market or possible reversal and taking action with regards to your open trade when they present. There are many chart and candlestick patterns that would require a whole new book to describe, so I won't go into any great detail here. Keep going back over historical charts with your own individual trade setup.

If you look at enough of these charts and actually study them, you will recognize the same patterns over and over again which will make trading a lot easier when trading from the right edge of the chart as you will have a fair idea of what may happen next. Practice, practice, practice.

And finally, you may just be presented with a Divergence setup in the exact opposite direction. For example you may have been in a buy trade and a Bearish Divergence setup presents, and even if you decided against taking a sell trade, then exiting the open buy trade would be the smart option. If not, then at least consider moving your stop loss into a more favorable position.

HIGH RISK MONEY MANAGEMENT TECHNIQUE

So far I have discussed entering trades based on the methods above and then treating each trade as an individual trade. This means that the trade was entered and a stop loss was also placed. You were then either stopped out for a loss or managed your trade until a result was obtained. Every trade was treated and managed as an individual trade. This is the more traditional way of trading which is embraced by the majority of traders, no matter what financial instrument they are trading. Now I would like to add a twist to this and show you another way to handle open trades, especially when things go against you.

Now I must warn you, that this is a high risk strategy and it is not for everyone. I mentioned this method in my previous book. It requires strict money management rules as you can get into real trouble if you are not careful. So please be careful if you decide to trade like this. **I can't stress this warning enough. Be careful and be smart when trading like this.**

Okay, that was the warning, so what exactly am I proposing here? If you take a trade and it goes against you, instead of being stopped out for a loss, you remain in the trade and let it play out for a result one way or the other. You still follow all of the above rules when it comes to trade selection, so nothing changes there.

This technique will possibly have you ending up with multiple trades in the same direction on the same pair. A basket (or sequence) of trades where you would treat this basket of trades as one. For example, you may have three (3) open buy trades on the GBP/JPY 4hr chart, where you would then manage all three trades in the basket as one trade.

The easiest way to explain this is with an example. You may receive a new buy signal where you take the buy trade. Here you would enter with your base lot size. This is determined by your own individual risk parameters, but with this method you will be entering multiple trades in the same direction, and each new trade will require a larger position size.

Therefore you can see how things can build up quickly. For this example, I'll use a base lot of 0.01 lot, so that is my first buy entry. There will be no stop loss on this trade, or if you are not comfortable with that idea, then a stop loss is placed a long way away just to protect your account. This could be considered a catastrophe stop. Now this trade may just take off and end up being managed like an individual trade. That would be great and the ideal scenario.

But if things go bad on this first trade, then this is where further action is required. If that first buy trade was for 0.01 lot and then if the QMP Filter then presented a new sell signal (red dot) but the MACD Platinum was still below the zero level, then you would ride it out and wait for a new valid buy signal. This would be a new blue dot on the MACD Platinum which is still below the zero level, which would also have to be confirmed by a new blue dot on the QMP Filter.

Once this signal presents, then you take a further buy trade at 3x your base lot. As my base lot was 0.01 lot, this new buy trade would be for 0.03 lots. Now I would be long a total of 0.04 lots on this basket of trades. There would be no stop placed on this second buy trade but again, you may wish to place a catastrophe stop just for peace of mind.

In the download package with this book, I have also included a spreadsheet that will greatly assist you with the next part. With this spreadsheet you can enter multiple trades on the one pair and it will calculate an overall break-even level for you. So with the two abovementioned buy trades, you would enter the required information into the spreadsheet regarding both trades and it will provide you with an overall break-even level. When I am trading this way, I normally mark this break-even level with a yellow dashed horizontal line on my chart, just so I know where it is at all times.

What happens if price goes against you again? Then we do it all over again. As long as there is a valid buy signal on the MACD Platinum that is below the zero level, and the QMP Filter confirms this with a blue dot also, then you just take another buy trade for 5x the base lot. So the third buy trade would be for 0.05 lots. Again, no stop loss or just a catastrophe stop. That now leaves me with three (3) buy trades on the table at 0.01, 0.03 and 0.05 lots for a total long of 0.09 lots.

This information is added to the spreadsheet where the new break-even level is calculated and adjusted on your chart. You are probably wondering how do you get out of this? The easy way is to have an overall break-even target, and close all trades when that is hit. This is especially the case if you have got into multiple trades and you aren’t confident of the overall market setup.

But one thing is critical here and I can’t stress this enough. If the MACD Platinum gets to the zero level and crosses it, you have to seriously consider your overall position. I mean this!

It is great if you are in a position that you can just close out at this level and take a profit or even be able to place an overall break-even stop for all trades at a fair distance away, giving the trades room to move and potentially further profit. But, if your trades are in an overall loss situation, this is where indecision will come into play. The smart thing to do would be to close all your trades and take the loss. You may wish to wait a candle or two and just see if there is a chance to get to overall break-even.

This would depend on what your thoughts are on the whole chart setup at the time i.e. does it make sense to keep these trades open at this point in time from a technical analysis point of view? I can't stress enough, that once the MACD Platinum breaks the zero level, then it is generally game over for the multiple trade scenario as sometimes you will see the basket of trades just reach the overall break-even level, and even though the MACD Platinum continues up over the zero level, price may fall away, putting you back in an overall losing position.

If MACD Platinum gets to the zero level, it is best to get out if you are in a losing position. The sequence of trades is 1,3,5,8,13,21 etc. Just the Fibonacci numbers. Hopefully you won't have to go past 13x that often, but treat your money management like you may have to. Even if you get to the 13x trade, then based on a 0.01 base lot, that would mean you are at a total of 0.30 lots in one direction and still no guarantee of a positive result. Can you see how this method can be dangerous and catch out the unaware? Your position size can grow quickly, especially if you are caught on the wrong side of a trend, hence money management is vital when trading like this. You have been warned!

The good thing about this method is that there is plenty of potential for huge profits. For example, if you got into a situation where you had five (5) trades open and then price went in your favor on a price spike, then your profit would explode with it. If you do the math, the more trades you have on using this method, the less distance price has to move to hit your overall break-even level if it had remained constant throughout the sequence of trades.

So you could end up in a position where you have the five (5) trades on and you have an overall break-even stop in place on all trades and price just shoots up a couple of hundred pips, then you would be in pip heaven. But there is always the trade-off. Could you handle the stress along the way in building that five (5) trade basket? Could you handle the drawdown? What if it just gets to break-even or even a small loss and the MACD Platinum crosses the zero level?

Like they say, high reward normally comes with high risk and this is no different. There also nothing to stop you from scaling out of trades if you find yourself in a position to do so. When it comes to managing trades, there are plenty of options available and there is probably no right way to do it every time. I am just giving the reader ideas here.

You may also consider adjusting the bottom three settings of the QMP Filter to 1,2,1 instead of the default 1,8,3. This part refers to the QQE Adv indicator settings and will present the colored dots on the QMP Filter much more in sync with the MACD Platinum dots.

There will be times when there are new MACD Platinum dots but still no QMP Filter dots, so you still wait for the QMP Filter for confirmation. No matter what settings you use, follow the general rules mentioned in this book. If using the default settings of 12,26,9 & 1,8,3 there are times that by waiting for the QMP Filter confirmation, it may be a little late for a full recovery on a basket of trades before the MACD Platinum zero level is crossed.

Use a setup that works for you and that you are comfortable with. Even though it may be a little time consuming, it is quite easy to manually back test this method by using the relevant open prices from the chart and the spreadsheet. I would highly recommend that you do this to get a good feel for how it all works before doing it live. Like I said, this method is not for everyone, which I fully understand. But if you do use it, be careful.

Figure 51 . Multiple Buy Trade Example - 1

Figure 51 is of the CAD/CHF 4hr chart which shows a sequence of buy trades from left to right. As you can see by the first trade, it wasn't a good one as price just fell away quickly after going sideways for a few candles. This is where the no stop loss may freak a few traders out, and understandably so, as this went about -340 pips against me before a new buy signal was generated. In the meantime the MACD Platinum remained below the zero level.

Then the second buy trade presented, which would have been for 3x the original trade in position size. It is still not looking good as my overall losses would have been amplified. But I would have entered the data into the spreadsheet and at least have something to aim for now with an overall break-even level.

As the third buy trade developed I would have noticed the MACD Platinum turning up to give me a heads up that Regular Bullish Divergence may be forming, and this was confirmed when the third buy trade presented. Having this Divergence would have given me confidence in this final trade, which was for 5x the original trade. The new data would have been entered into the spreadsheet to produce a revised overall break-even level.

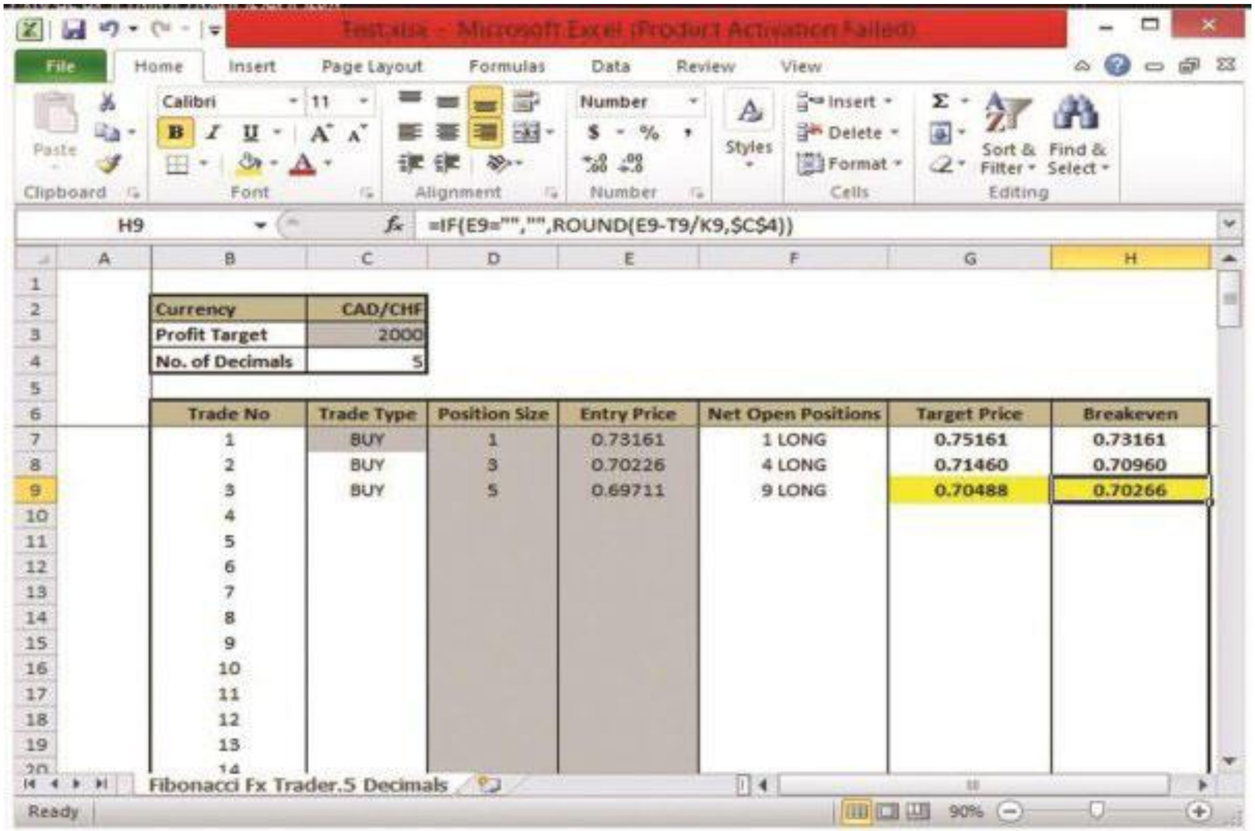
Now it is a matter of waiting. You will notice that I have drawn a gray vertical line on the chart when the MACD Platinum crossed the zero level. If I had closed all the trades out then, I would have taken a loss. But like I stated, you would look at the whole technical setup and make a decision based on that.

With the confirmation of the Divergence and a steady upward move in both price and the MACD Platinum, I would hold on and aim for at least overall break-even. It may have just happened on the next candle, but if not, then definitely on the next one. If you had decided to stay in the trade up until the next opposite red QMP Filter dot, then there would have been plenty of pips to be made. Personally, I would go for overall break-even, get out and live to fight another day.

Figure 52 provides a screenshot of the actual spreadsheet used in the above example. For profit target you have to enter your desired target in pips with an extra zero. In this example, I was after +200 pips, so I had to enter 2000 in the Profit Target box in the top left (this is just the way the form was designed).

You can clearly see the required targets in the right hand columns, which the spreadsheet calculates for you. Be aware that the spread is not taken into consideration so it may pay to set your actual physical levels on the chart a pip or two on the other side of the actual figures quoted on this spreadsheet.

If you were long, it would be above these levels by a pip or two, and if short, then set them below a pip or two. Update February 2020: The multiple trade spreadsheet has been modified and no longer has a Profit Target function...just an overall Break-even level.



Trade No	Trade Type	Position Size	Entry Price	Net Open Positions	Target Price	Breakeven
1	BUY	1	0.73161	1 LONG	0.75161	0.73161
2	BUY	3	0.70226	4 LONG	0.71460	0.70960
3	BUY	5	0.69711	9 LONG	0.70488	0.70266
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						

Figure 52.Spreadsheet for Figure 51

Figure 53 is another example of using multiple trades, but this time on the sell side. Here I have the EUR/AUD 4hr chart with three (3) sell signals from left to right. Remember that the position sizes increase each time in the 1,3,5 sequence.

The first trade was taken when the MAs were fairly flat and a valid sell signal all round. It could have been avoided if you were of the opinion that you wouldn’t take a trade when price is actually sitting on the 240 LMA.

But assume I did take the trade, and as it turned out, that wasn’t that smart of a decision as price went against me right from the get go. The MACD Platinum remained above the zero level, and eventually there was another sell signal.

Now I can see that the MAs are starting to spread and head up, possibly indicating the start of a new trend to the upside. And I’m in two (2) sell trades already! It is time to start looking for a get out at overall break-even if it presents.

Figure 53. Multiple Sell Trade Example

Now price keeps on heading up and the MACD Platinum remains above the zero level, but the MAs are spreading out further so you may be getting a little concerned by now, especially as there are no stops in place. Then a third valid sell trade presents, which is taken.

There is no obvious Divergence as yet and the MAs are now in a clear uptrend, so I would still be looking for an overall break-even exit on this basket of trades. In the meantime, you would have been entering this trade data into the spreadsheet which would give you the overall break-even level, and in this case, an overall +200 profit target level.

I have drawn these levels on the chart as the yellow dashed lines with the top one being the overall break-even level. The +200 pip target was only about 25 pips below this level. I would have taken the overall break-even and be done with. There is no need to risk any more than you have to. You could have waited a couple of candles if you wanted to as the MACD Platinum zero level wasn't crossed until the gray vertical line.

And you can see what I mean, if you miss the opportunity to get out when it presents the first time, you may find yourself back in a losing position with no easy way out. Some observations when using this method. I have already stressed that this is not for everyone and that it can become quite dangerous if it gets out of hand.

I would not open a basket of trades using this method if the first trade is clearly against the trend. I am talking about a decent trend that has already formed. I would only commence this style of trading against a trend if there was confirmation by the way of Divergence.

Often you start a basket of trades with good intentions on a reasonable set up and then things go against you, where the trend may change. This is where you start looking for a way out of the trade/s. Don’t be afraid to take a break-even result.

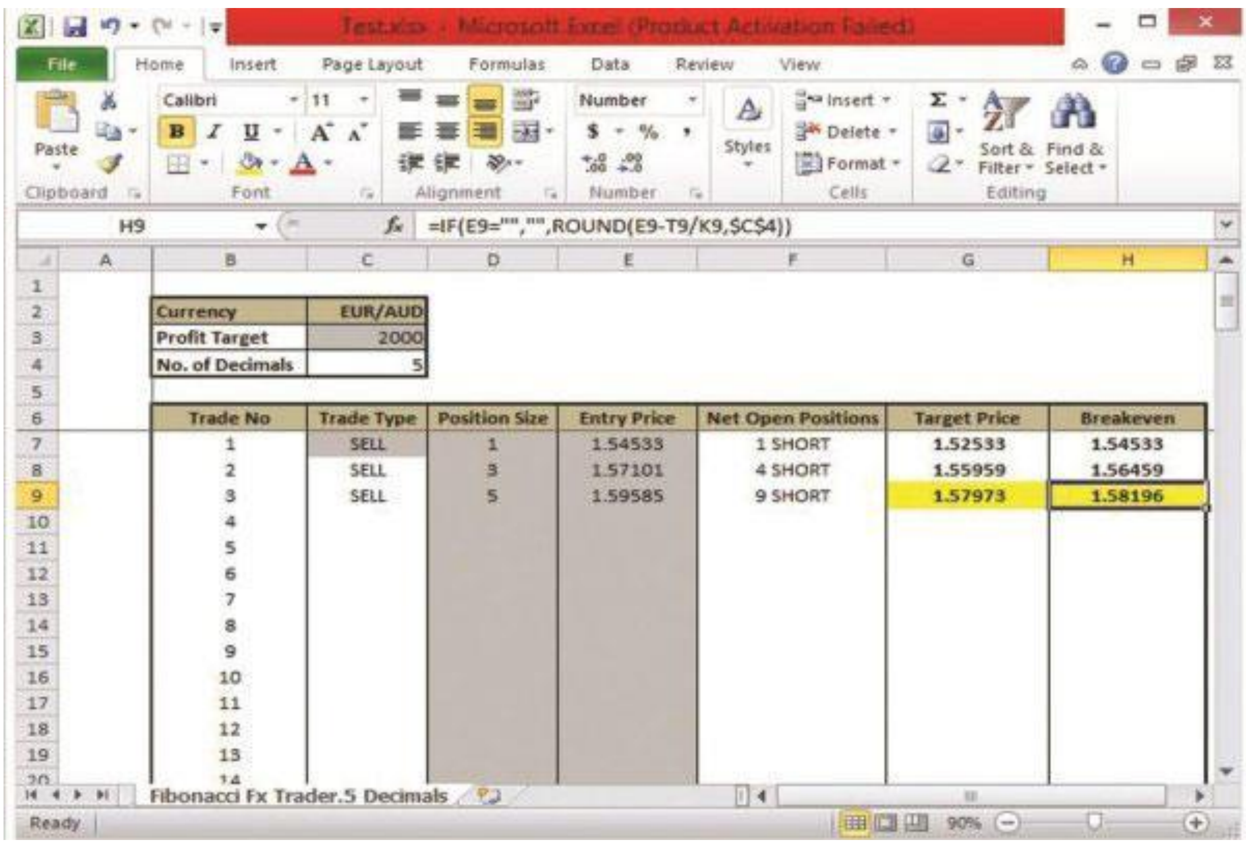


Figure 54.Spreadsheet for Figure 53

You may get out, and then another trade signal in the same direction presents again, whereas you can start a new basket of trades using the same method. There is nothing to stop you closing out one or more trades in a basket at any time, and then manage what is left. Use the spreadsheet to assist with your levels so you know where you are at. You can mix and match this up a fair bit, by being as aggressive or conservative as you like.

Remember your money management rules and be smart about it. Like everything else, go through a large number of historical charts and manually enter figures into the spreadsheet and see how it all works, comparing the levels to how your chart looks. Nothing beats time on the charts with your preferred set up. ————
– **Update February 2020:** After much testing and live trading, it is my opinion that you should only use the high risk trading method mentioned above on initial trades with the trend or if an initial setup is confirmed by Hidden Divergence. Again, spend time on historical charts to see how the patterns form and what you think you would be comfortable with. And to add to the above, I have since found that taking hedge trades may also reduce the overall risk.

For example, you took a buy without a stop, and price went against you. Now instead of waiting for a 2nd buy trade to present, and if there was a red QMP Filter dot, and even though this was not a valid sell signal as per the system's normal rules, you would still take this sell trade with the same position size as the original buy trade. Here you would be locking in a loss and giving yourself some downside protection. Price could then continue to fall off a cliff and you wouldn't be losing any further funds as that loss is locked in.

Then you would just wait for the 2nd buy trade to present, where that would be taken with a larger position size, and the overall break-even level would again be identified by the multi trade spreadsheet. I have some videos in my YouTube channel that explain this method in a bit more detail. It is still high risk, but it gives you some protection and reduces your overall position size in a sequence. Just something for the reader to consider.

CONCLUSION

A lot of this information can be found in my book, MT4/MT5 & TradingView High Probability Forex Trading Method, however this book goes into more detail on how to add Divergence to your trading arsenal. It can be used in many ways, whether with my indicator package or something of your own.

The Downloadable Package area which follows, will also provide you with all of the images from this book. Make yourself familiar with the four (4) Divergence patterns. Get to know them, so you can immediately spot them either when they look like they are forming or when they have been confirmed.

You may wish to stick with one setup that repeats over and over, or you may wish to mix it up. If you are new to trading, I would suggest that you trade the safer option where you are only looking for trades with the trend (look at the MAs) where Divergence is spread over a larger number of candles and there is clear confirmation of the trade signal, and then trade each signal as an individual trade with a definite stop loss in place that complies with your money management rules.

This is the smart and conservative way to trade. Either start on a demonstration (demo) account where you have no real money at risk, or better still, start on a very small live account. By small, I mean small, and you trade small. Demo accounts are great for getting to understand the setups and also understand your platform. They operate under different rules to a live account when it comes to order fills etc. and the big issue is there is no real emotional attachment to them.

So traders will make stupid decisions on a demo account that they would never do on a live account. With a small live account, not only will your platform perform more accurately under live conditions (slippage, requotes etc.), you will also have some ‘skin’ in the game and be a little more determined to do the right thing and follow your rules.

There may also be some emotion attached depending on how you perceive your account balance in relation to your own personal lifestyle. For some, a $500 live account may mean nothing to them in the grand scheme of things, but to others, that could represent a fair chunk of change. Everyone is different. Once you have mastered that, then move on to other strategies if you so desire. Mix it up as much as you like, but always look at the big picture on the chart.

If you doubt a trade setup, then don't take it. Either wait for further confirmation or just wait for the next new setup. You don't have to take every trade on offer. Choose the ones that look good to you. Now I am going to say this again because I cannot stress enough that you should be looking at historical charts and studying them with your own personal trade setup.

It sounds boring and time consuming I know, but this will give you confidence in the trade signals. Don't gloss over the potential losers and concentrate on the potential winners. Do it the other way around. Look for where your trade setup got into some trouble and see what would have happened, or what you could have done differently to avoid that situation.

There may be a point where you would have lost -100 pips on a trade signal, but then fast forward your chart and see if that loss could have easily been made up.

Again, it gives you confidence for the future knowing that it isn't a problem if you take a loss, as a winning trade will not be far off. Keep it simple, keep it consistent, keep it small and watch your money management rules. So that's it in a nutshell, Forex Trading with Divergence.

As a reader of this book you are more than welcome to join my Facebook and/or my Telegram Group/s mentioned at the beginning of the book where I discuss trade setups and other Forex related information. You are also welcome to contact me via email at admin@jagfx.com if you have any questions or just want to chat about Forex in general.

I always enjoy hearing from other traders, to discuss my methods or your own methods. Thanks for reading and good luck with your trading. Cheers. Jim